

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

CITY OF LEAGUE CITY, TEXAS

**For the fiscal year ended
September 30, 2006**

**Prepared by
Finance Department**

**Cynthia Pearson,
Finance Director**

**Lonna Stein,
Controller/Tax Assessor Collector**

**Quencelia Graves
Senior Accountant**

CITY OF LEAGUE CITY, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION	
Letter of Transmittal	1
GFOA Certificate of Achievement	7
Organization Chart	8
Principal City Officials	9
FINANCIAL SECTION	
Independent Auditors' Report	13
Management's Discussion and Analysis	15
Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Assets	27
Statement of Activities	28
Fund Financial Statements:	
Balance Sheet – Governmental Funds	30
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets	31
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	32
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	33
Statement of Net Assets – Proprietary Funds	34
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	35
Statement of Cash Flows – Proprietary Funds	36
Notes to the Financial Statements	38
Required Supplementary Information:	
General Fund – Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual	73
Notes To Required Supplementary Budget Information	74
Required Pension System Supplementary Information	76

CITY OF LEAGUE CITY, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL SECTION (continued)	
Combining and Individual Fund Statements and Schedules	
Combining Balance Sheet - Nonmajor Governmental Funds	82
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	86
Budgetary Schedules	
Schedules of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual:	
Police Activity	92
Municipal Court	93
Library Gift	94
Escrow Park Facilities Maintenance	95
League City SportsPlex	96
Butler Museum	97
Animal Control	98
Debt Service Fund	99
 UNAUDITED STATISTICAL SECTION	
Net Assets by Component	103
Changes in Net Assets	104
Fund Balances of Governmental Funds	106
Changes in Fund Balance of Governmental Funds	108
Property Tax Levies And Collections	110
Principal Taxpayers	111
Assessed Value and Estimated Actual Value of Taxable Property	112
Property Tax Rates Direct and Overlapping Governments	114
Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita	116
Direct and Estimated Overlapping Governmental Activities Debt	117
Ratios of Outstanding Debt by Type	118
Pledged Revenue Coverage	120
Principal Employers	121
Demographic and Economic Statistics	122
Full-Time Equivalent City Government Employees by Function	123
Capital Asset Statistics by Function	124
Operating Indicators by Function	126

INTRODUCTORY SECTION

CITY OF LEAGUE CITY

300 West Walker • League City, Texas 77573 • (281) 554-1359

March 21, 2007

Honorable Mayor and
Members of the City Council
and the Citizens of the City of League City

The comprehensive annual financial report (CAFR) of the City of League City for the fiscal year ended September 30, 2006, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with Generally Accepted Accounting Principals (GAAP). Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Null Lairson, P.C., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended September 30, 2006, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City was part of a broader, federally mandated “Single Audit” designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government’s internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City’s separately issued Single Audit Report.

GAAP require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management’s Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City’s MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of League City is located 25 miles south of downtown Houston, Texas in northern Galveston County and the southern most part of Harris County. The City has a population of approximately 68,000 and encompasses an area of 53 square miles. The City adopted a “Home Rule Charter” on March 27, 1962. That charter provides for the “Mayor-Council” form of government as referenced in Vernon’s Annotated Civil Statutes, Art. 1164 et.seq.

The City provides a full range of services. These services include police, emergency management, animal control and municipal court facilities; the construction and maintenance of streets, drainage systems and other infrastructure; recreational parks, swimming pools and athletic fields; and other facilities for various cultural and civic activities. The following entities have met the requirements for component units and have appropriately been included within the financial statements:

- City of League City 4B Industrial Development Corporation
- City of League City Economic Development Corporation
- Destination League City Convention and Visitors Corporation
- City of League City Tax Increment Financing Zone No. One
- City of League City Tax Increment Financing Zone No. Two
- City of League City Tax Increment Financing Zone No. Three
- City of League City Public Improvement District No. One - Magnolia Creek
- City of League City Public Improvement District No. Two - Victory Lakes
- City of League City Public Improvement District No. Three – CenterPointe
- City of League City Public Improvement District No. Five – Park on Clear Creek
- League City Volunteer Fire Department
- League City Emergency Medical Services

The City also operates its own Water and Wastewater System for all residential and commercial locations within its limits as well as for seventeen municipal utility districts within the City’s territorial limits. The City contracts out for solid waste collection services and as such this

service does not meet the established criteria for a component unit and has not been included within the reporting entity.

Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse and that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The City feels its internal control structure provides reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: 1) the cost of a control should not exceed the benefits likely to be derived; and 2) the valuation of costs and benefits requires estimates and judgments by management.

In addition, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the General Fund, Enterprise Fund, Debt Service Fund, all individual Special Revenue Funds and certain individual Capital Project Funds are included in the annual appropriated budget. The level of budgetary control is the department, except for Special Revenue Funds and the Capital Project Funds where the legal level is the total fund.

Local Economy

The economic condition and outlook for the City is quite good with continued growth anticipated for the next several years. Economic development is a priority of City Council. The Council wishes to maintain the family oriented quality of life atmosphere for which the City is known. Economic development efforts are focused on the City choosing and assisting development that is compatible with the focus on family atmosphere. With increased business development, the City can continue to lower taxes while providing more services.

On August 9, 2006, INEOS, the world's largest chemical company, selected League City for the location of its new Nitriles and Oligomers business units. These new INEOS businesses will generate 150 new corporate jobs and approximately \$4 million in new taxable revenue. The Economic Development Corporation (EDC), along with the Bay Area Houston Economic Partnership, spent seven months working with INEOS officials on issues related to their site evaluation. League City's location, workforce, and economic incentives were factors that contributed to the final decision.

In July, 2006, the EDC entered into a memorandum of understanding with the developers of three Planned Unit Developments, totaling 4,600 acres on the southwest side of League City. The land will be reserved for up to ten years in order for the EDC to facilitate the development of a town center, a business park, and an industrial district for this area. The EDC will be developing a marketing plan to encourage interest from commercial developers in constructing these major business and community activity centers.

The University of Texas Medical Branch announced it would construct a 35 acre Galveston mainland campus in the Victory Lakes Business Park. Phase I of the project will include several medical diagnostic specialties that are not presently meeting the population demand of the area.

The EDC used local resources to assist Process Level Technology, a local company, in expanding its operations. The company plans to double its staff, sales and building size.

The Big League Dreams Sports Park continues to attract visitors to League City. The \$19 million sports park was the first of its kind outside the state of California. The sports park has six replica baseball/softball fields designed to attract regional, state and national adult softball and baseball tournaments. The park has commitments for multiple United States Specialty Sports Association tournaments and other large tournaments. In addition to the ball fields, there are two stadium club concession restaurants, a 21,000 square foot covered pavilion for indoor soccer and special events, sand volleyball, a tot lot, a retail shop, and an 8,000 square foot skate park. The economic impact projected for the League City area is expected to grow to nearly \$35 million in its fifth year of operations.

Another project approved to promote League City as a destination is the Butler Longhorn Museum. The City purchased an estate including approximately 10 acres of land along Clear Creek. The home is being renovated and will serve as the indoor portion of the museum that will educate visitors on the rich ranching heritage on which the City was founded. One of the feature attractions of the museum will be the well known Butler Longhorn. The grounds of the museum will be used for outdoor interpretive and period centers as well as park area. This project is expected to open in 2007.

The City has certainly focused efforts on diversifying the local tax base and significant commercial development has finally come to the City. At the present however, residential development does continue to dominate new development. The City issued 1580 building permits for new residential construction during FY 2006.

Major Initiatives

For the Year

Improving the City's infrastructure continues to be a major focus. The Master Water and Wastewater Plans and resultant Impact Fees were updated. Water lines were added to the Shellside Subdivision, an underdeveloped area of the City. This addition provided first time potable water, wastewater collection and conveyances services as well as fire protection to many long time residents.

In keeping with the Master Plan, the City of League City cooperated with private development to complete additional 16" and 24" segments of the Southeast General Benefit (SGB) Water Distribution system in order to secure needed water supply for existing and new development. This cooperative effort between the City and private development was also responsible for completing the SGB Sanitary Sewer System, which provided sanitary sewer collection and conveyance for approximately 14,000 EDU of service capacity.

Phase II of the South Hwy 3 Pump Station was completed providing enhanced pump opening and closure features. The City also negotiated long term contracts with Gulf Coast Water Authority to secure needed potable water supply and conveyance. Additionally, work on

security improvements at all water and wastewater treatment plant facilities for compliance with Homeland Security requirements was completed.

The City completed extensive improvements to the Dallas Salmon Wastewater Treatment Plant, including Phase I Expansion and Lift Station Headworks Improvements. Gravity sewer was provided within the Palomino right of way, providing a necessary step toward wastewater collection for the City's service area north of Clear Creek. The City also secured a site for the Southwest Wastewater Treatment Facility.

Funding for Phase I of the Master Transportation Plan Update was secured. The City participated with land developers to complete major thoroughfares within the City, including League City Parkway West from Landing Blvd to Bay Area Blvd and South Shore Blvd from Meadowbend Subdivision to FM 646. The City also installed the first City owned traffic signal at League City Parkway West at Hobbs Road.

In conjunction with the Master Facilities Plan, the City secured a site for Fire Station #6 to provide service to the southeast quadrant of the City. Additionally, the Line Repair and Emergency Operations Building was completed.

An update of the Parks Master Plan and resultant Impact Fees was completed, which allowed the use of collected fees for construction. In support of the Master Plan, the Clear Creek Nature Park design was completed and land for the Southeast Regional Park was secured.

For the Future

Infrastructure development will remain a priority in the City's plans to meet the increased demand for service spurred by rapid growth. Numerous Public Safety, Street, Water and Wastewater projects are included in the City's Long Range Capital Improvement Plan. Through the CDBG program, the City will continue to provide potable water and fire protection to underdeveloped areas. With the assistance of the Line Repair Department, the City will continue replacement of water and sewer mains, deficient in carrying capacity and/or construction.

Within the City organization itself, improvements will also be made to help the City run more efficiently. The City will work to complete its project to network all city facilities. Improvements will continue to be made to the City's website to promote customer service and to ensure citizen satisfaction.

Awards

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of League City, Texas for its CAFR for the fiscal year ended September 30, 2005. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. This is the 22nd consecutive year that the City has received this prestigious award.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation of the CAFR on a timely basis was made possible by the dedicated service of the entire staff of the Finance Department. I would like to express my appreciation for their efforts. In addition, I thank the Mayor and members of the City Council for the responsible decisions they have made in the interest of preserving the financial integrity of the City of League City.

Respectfully submitted,

Cynthia Pearson
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of League
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2005

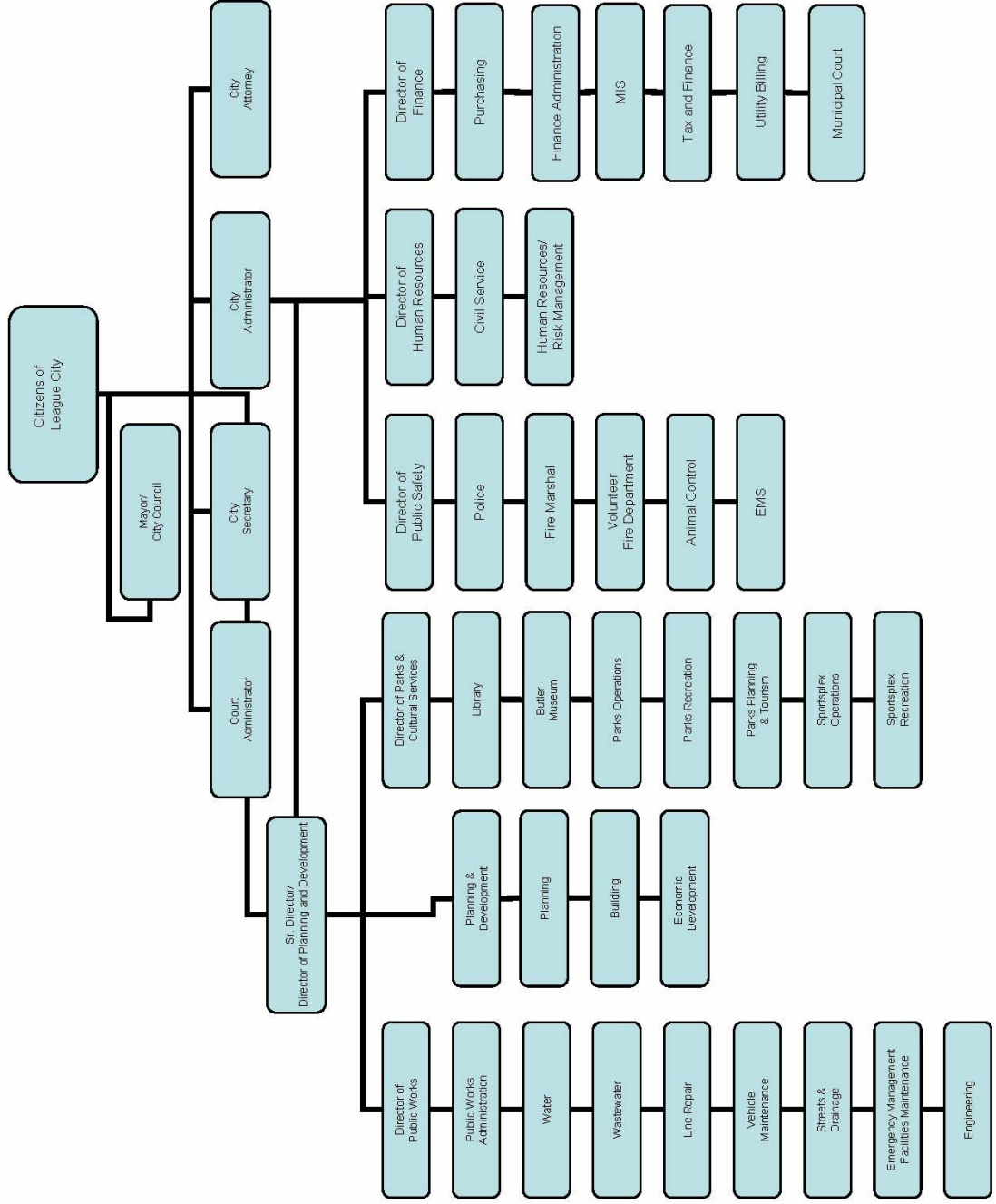
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

CITY OF LEAGUE CITY ORGANIZATIONAL CHART



**CITY OF LEAGUE CITY, TEXAS
PRINCIPAL CITY OFFICIALS**

<u>Elected Officials</u>	<u>Position</u>
Jerry Shults	Mayor
Tad Nelson	Council Member
Mike Barber	Council Member
Thomas Cones	Council Member
Chris Samuelson	Council Member
Phyllis Sanborn	Council Member
Jon Keeney	Council Member
Jim Nelson	Council Member
<u>Appointed Officials</u>	
Chris Reed	Interim City Administrator
Barbara Long	City Secretary
Mary Chambers	Senior Director/Dir of Planning & Development
Cynthia Pearson	Director of Finance
Larry Herbert	Director of Public Works
Joy Allmond	Director of Human Resources
Drew Daniel	Director of Public Safety
Chien Wei	Director of Parks & Cultural Affairs

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FINANCIAL SECTION

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To the Honorable Mayor and Members
of the City Council
City of League City, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of League City, Texas, (the “City”) as of and for the year ended September 30, 2006, which collectively comprise the City’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of City’s management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2007 on our consideration of the City’s internal control over financial reporting and on our tests of its compliance with certain provisions or laws, regulations, contracts, and grants. That report, which has been issued separately from this document, is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Management's Discussion and Analysis on pages 13 through 23, budgetary comparison information and Required Pension System Supplementary Information on pages 73 through 76 are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink that reads "Null Laison, P.C." in a cursive, flowing script.

Houston, Texas
February 22, 2007

CITY OF LEAGUE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of League City, we offer readers of the City's financial statements this overview and analysis of the financial activities of the City of League City for the fiscal year ended September 30, 2006.

Financial Highlights

At the close of the most recent fiscal year, ending September 30, 2006, total assets of the City of League City exceeded liabilities by \$195 million. Of this amount, \$26 million is categorized as unrestricted net assets which may be used by the City to meet ongoing or future obligations. It also represents resources available to capitalize on investment opportunities that may arise.

Overview of the Financial Statements

This discussion and analysis should serve as an introduction to the basic financial statements which include 1) *government-wide* financial statements; 2) *fund* financial statements; and 3) *notes* to the financial statements. Supplementary information is also provided in this report.

Government-wide Financial Statements. In a manner similar to a private-sector business, the government-wide financial statements present a broad overview of the City's finances.

The *Statement of Net Assets* (p.27) details the City's assets and liabilities. The difference between the two is reported as net assets. Over time, changes in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* (p.28) presents how the City's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Consequently, revenues and expenses for some items reported in this statement may actually result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements mentioned above make a distinction between "governmental activities" (principally supported by taxes and intergovernmental revenues and "business-type activities" (which recover all or a significant portion of their costs through user fees and charges.) Governmental activities of the City include general government, public safety, streets, drainage, planning, code enforcement, economic development, a public library cultural activities, parks and recreation. The business-type activity of the City is its operation and maintenance of the water and wastewater system.

The government-wide financial statements refer to the City as the primary government and separate its financial information from that of its component units. Component units are legally separate entities that meet certain tests of interconnectedness with, and dependency upon, the City. These include the Section 4B Industrial Development Corporation, the League City Economic Development Corporation, Destination League City Convention and Visitors Corporation, three (3) Tax Increment Reinvestment Zones, four (4) Public Improvement

CITY OF LEAGUE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

Districts, the League City Volunteer EMS, and the League City Volunteer Fire Department. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

Fund Financial Statements. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Like other state and local governments, the City uses fund accounting to ensure compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories – “governmental funds” and “proprietary funds.”

Governmental Funds. Governmental funds provide additional information not provided in the government-wide financial statements. The City maintains twenty-two (22) governmental funds. The General Fund and the Debt Service Fund are considered to be major funds and therefore information is presented separately for each in the *Governmental Funds Balance Sheet* and the *Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance*. The other twenty (20) governmental funds are aggregated into a single presentation.

The City adopts an annual budget for the General Fund. A *Budgetary Comparison Statement* has been provided to illustrate compliance with adopted budget.

The basic governmental fund financial statements can be found on pages 30 through 34 of this report.

Proprietary Funds. The City maintains two different types of proprietary funds – enterprise funds and internal service funds. The City uses an enterprise fund to account for its water and wastewater system. An internal service fund is used to account for the City’s vehicle fleet and equipment.

Proprietary fund financial statements provide the same type of information, only in more detail, as the government-wide financial statements. The Water and Wastewater Operating Fund is considered a major fund and is presented separately. The internal service fund is also presented separately along with the Water and Waste Water Fund.

The basic proprietary fund financial statements can be found on pages 34 through 36 of this report.

Notes to the Basic Financial Statements. The notes provide additional information that is essential to a better understanding of the data provided in the government-wide and fund financial statements. These can be found on pages 38 through 71 of this report.

CITY OF LEAGUE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

Other information. In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning (1) the City's progress in funding its employee pension benefits obligation and (2) a *General Fund Budgetary Comparison*. Required supplementary information can be found on pages 73 through 76 of this report.

The *Combining Statements* for the non-major governmental funds and internal service funds are presented after the required supplementary information on pensions. Combining and individual fund statements and schedules can be found beginning on page 82 of this report.

Government-wide Financial Analysis

As noted earlier, changes in net assets over time may serve as a useful indicator of the City's financial position. At the end of Fiscal Year 2006, assets exceeded liabilities by \$195 million.

At the end of both the 2006 and 2005 fiscal years, the City was able to report positive net assets balances for both governmental activities and business-type activities.

By far the largest portion of the City's net assets (85%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment), less any related outstanding debt used to acquire those assets. Although the City's capital assets are reported net of related debt, the capital assets themselves are not liquid. Consequently, the reader should be aware of the fact that other sources of income are needed to retire future debt obligations.

CITY OF LEAGUE CITY'S NET ASSETS

September 30, 2006 and 2005

Amounts in (000's)

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 32,105	\$ 25,653	\$ 47,293	\$ 50,014	\$ 79,398	\$ 75,667
Capital assets	154,533	143,464	85,486	67,734	240,019	211,198
Total Assets	186,638	169,117	132,779	117,748	319,417	286,865
Other liabilities	3,308	4,101	2,341	2,610	5,649	6,711
Long-term liabilities outstanding	63,393	61,125	55,783	60,015	119,176	121,140
Total Liabilities	66,701	65,226	58,124	62,625	124,825	127,851
Net assets:						
Invested in capital assets, nets of related debt	102,970	90,101	62,130	42,829	165,100	132,930
Restricted	3,208	2,378	368	1,221	3,576	3,599
Unrestricted	13,759	11,412	12,157	11,073	25,916	22,485
Total Net Assets	\$ 119,937	\$ 103,891	\$ 74,655	\$ 55,123	\$ 194,592	\$ 159,014

CITY OF LEAGUE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

Restricted Assets (\$3.6 million), which are those assets legally restricted to certain uses, represent approximately 2% of Total Net Assets. The remaining balance (\$25.9 million) of unrestricted net assets may be used to meet the ongoing obligations and represent the remaining 13%.

The City's net assets increased by \$35.6 million during the current fiscal year compared to an increase of \$750,000 million in fiscal year 2005. The following table summarizes the changes in net assets for the City for the years ended September 30, 2006 and 2005:

CITY OF LEAGUE CITY'S CHANGES IN NET ASSETS

Years Ended September 30, 2006 and 2005

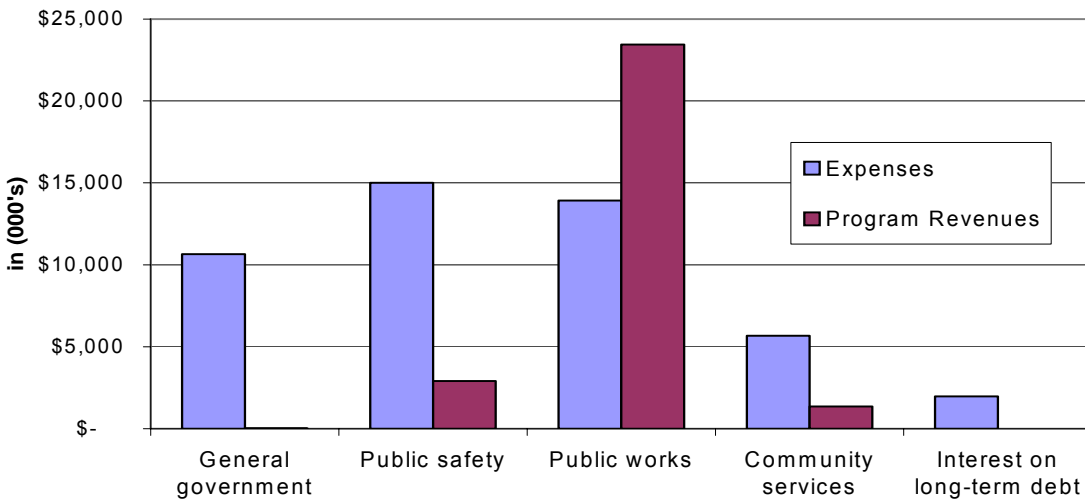
Amounts in (000's)

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Revenues						
Program revenues:						
Charges for services	\$ 7,367	\$ 7,028	\$ 19,494	\$ 18,526	\$ 26,861	\$ 25,554
Operating grants and contributions	1,623	1,215	45		1,668	1,215
Capital grants and contributions	18,746	20	14,313	4,354	33,059	4,374
General revenues						
Property taxes	23,162	20,270			23,162	20,270
Franchise taxes	3,486	3,302			3,486	3,302
Sales and use taxes	6,303	5,144			6,303	5,144
Unrestricted investment earnings	1,302	843	1,493	849	2,795	1,692
Miscellaneous	107	191			107	191
Total Revenues	62,096	38,013	35,345	23,729	97,441	61,742
Expenses						
General government	10,654	9,929			10,654	9,929
Public safety	15,003	12,375			15,003	12,375
Public works	13,928	17,216			13,928	17,216
Community services	5,665	4,726			5,665	4,726
Interest on long-term debt	1,969	2,204			1,969	2,204
Water and sewer			14,644	14,542	14,644	14,542
Total Expenses	47,219	46,450	14,644	14,542	61,863	60,992
Increase (decrease) in net assets before transfers	14,877	(8,437)	20,701	9,187	35,578	750
Transfers	1,169	1,476	(1,169)	(1,476)		
Increase (Decrease) in net assets	16,046	(6,961)	19,532	7,711	35,578	750
Net assets - beginning	103,891	110,852	55,123	47,412	159,014	158,264
Net Assets - Ending	\$ 119,937	\$ 103,891	\$ 74,655	\$ 55,123	\$ 194,592	\$ 159,014

CITY OF LEAGUE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

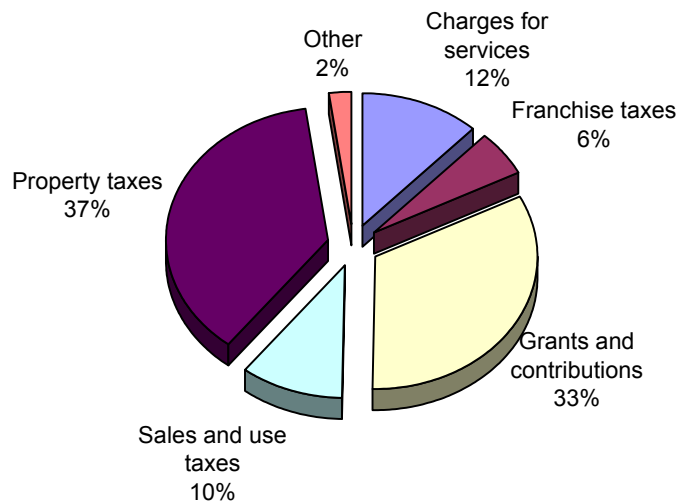
Governmental activities. Governmental activities increased the City's net assets by \$16 million. The biggest factor in the increase was infrastructure contributed to the City by a developer. A comparison of program expenses to program revenues and revenues by source for governmental activities follows:

Expenses and Program Revenues - Governmental Activities



Revenue sources for governmental activities were distributed as follows:

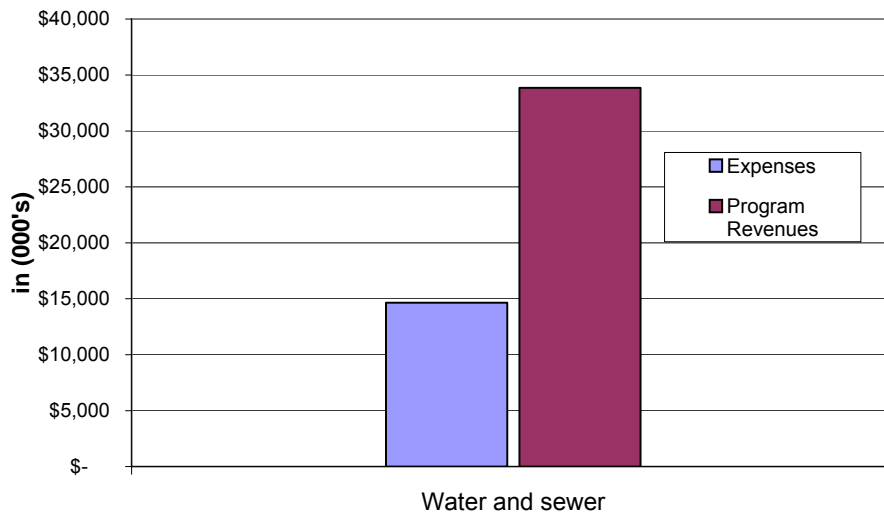
Revenues by Source - Governmental Activities



CITY OF LEAGUE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

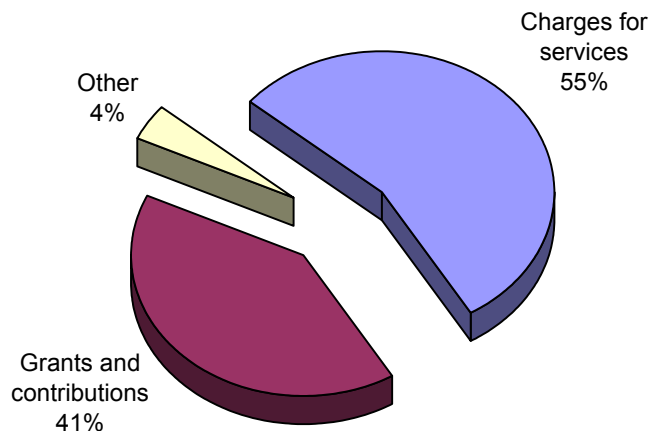
Business-type activities. The net assets of the City's business-type activities increased by \$15.9 million. This increase was aided by increased water sales and capital recovery fees, both related to continued strong development activity as well as a contribution of infrastructure from developers.. A comparison between expenses relating to water and sewer operations and program revenues (charges for services, operating grants and capital contributions) follows.

Expenses and Program Revenues - Business-type Activities



Revenue sources for business-type activities were distributed as follows:

Revenues by Source - Business-type Activities



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The General Fund is the chief operating fund of the City of League City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$14.5 million while total fund balance reached \$114.5 million. Unreserved fund balance as a percentage of total General Fund expenditures is a commonly accepted benchmark for measuring the fund's financial health and stability. At the end of Fiscal Year 2006, the unreserved fund balance was 48%.

The Debt Service Fund had a total fund balance of \$.9 million, all of which is reserved for the payment of debt service. The increase in fund balance from the prior year of approximately \$305,000 was due to increased property tax collections.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements.

Unrestricted net assets of the Water and Sewer Enterprise fund at the end of the year amounted to \$12.2 million or 83% of annual operating and non-operating expenses for the fund.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget amounted to \$1.1 million, primarily due to the reappropriation of funds from the prior year for capital projects not completed by year's end. These additional appropriations did not affect the City's ability to comply with the its Financial Management Policies and maintain a reserve balance of 90 days of operating expenditures.

Capital Asset and Debt Administration

Capital assets. The City of League City's investment in capital assets for its governmental and business type activities as of September 30, 2006 amounted to \$240 million (net of accumulated depreciation), an increase of \$29 million (13.6%) over the prior year. This investment in capital assets includes land, buildings, roads, park facilities, water and wastewater plants and service lines, machinery and equipment, and construction in progress.

Major capital asset events during the current fiscal year included the contribution of infrastructure assets by developers totaling approximately \$28 million..

Additional information on the City's capital assets can be found in Note 4 to the basic financial statements of this report.

CITY OF LEAGUE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

Long-term Debt. At the end of the current fiscal year, the City of League City had total debt outstanding of \$117.4 million. Of this amount, \$86.7 million is backed by the full faith and credit of the City, and the remainder represents revenue bonds secured by specified revenue sources. The Section 4B Industrial Development Corporation has \$2.3 million debt outstanding.

The City of League City's total debt increased slightly from that of the prior year. Retirement of \$7.3 million in debt was offset by the issuance of \$4.7 million in certificates of obligation.

The City has a General Obligation rating of Aa3 from Moody's Investor Services and an A+ from Standard & Poor's. The water and sewer revenue debt of the City is rated A2 by Moody's and A from Standard and Poor's.

The City has no legal debt limit provision in its charter.

Additional information on the City's long-term debt can be found in Note 5 to the basic financial statements of this report.

Economic Factors and Next Year's Budgets and Rates

The unemployment rate for the City of League City as of the 4th quarter of 2006 was 5.1%. The state's average unemployment rate was 4.7% (adjusted) for the same reporting period.

Each year the budget is prepared based upon certain economic assumptions and designed to achieve City Council objectives. Over the past several years, the City has experienced strong residential and commercial development growth. The budget assumes that this trend will continue into the coming fiscal year. This resultant increase in revenue is available to the City to meet its obligations created by that growth.

One of the objectives of the City Council was that projected service delivery demands would be met without an increase in the tax rate. This was accomplished and the tax rate was actually lowered slightly from the prior year. Another objective addressed in the budget was that established fund reserve benchmarks in the General Fund and the Water & Wastewater Operating Fund of at least 25% compared to budgeted expenditures would be maintained. Conservative projections estimate the ending fund balances at 9/30/07 will be 36% and 31% for the General Fund and the Water and Wastewater Operating Fund, respectively. The decline from previous year levels is the result of completing numerous capital improvement projects initially funded in prior years.

The tax rate for Fiscal Year 2007 was set at \$.6088 per \$100 of assessed value. This rate marks a reduction of \$.0187 from the Fiscal Year 2006 rate. Although the tax rate was lowered, revenues received from ad valorem taxes are budgeted to increase by nearly 10% due to the continued growth in the property tax base in the City. Of the total General Fund budget of \$36.5 million, only \$205,677 is appropriated from fund balance. The remaining revenues are current revenues.

CITY OF LEAGUE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

As new residential and commercial developments continue to keep pace with recent high growth trends, the City is actively planning for expansion of its water and wastewater system. The City's Long Range Capital Improvement Plan also includes numerous street and drainage projects as well as additional improvements to public safety, parks, and community development..

Requests for Information

Questions concerning any of the information should be addressed to the Office of the City Secretary, 300 West Walker, League City, TX 77573.

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BASIC FINANCIAL STATEMENTS

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CITY OF LEAGUE CITY, TEXAS
STATEMENT OF NET ASSETS
September 30, 2006

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Component Units</u>
ASSETS				
Cash and Equivalents	\$ 26,320,824	\$ 10,951,691	\$ 37,272,515	\$ 6,795,653
Investments	1,000,000	493,409	1,493,409	
Receivables	4,755,629	2,526,737	7,282,366	184,818
Restricted cash and equivalents		20,386,027	20,386,027	
Inventories	11,557		11,557	
Prepaid items	16,354		16,354	
Contractual rights to water supply		12,935,283	12,935,283	
Capital assets not being depreciated				
Land	11,211,485	698,893	11,910,378	41,080
Construction in progress	4,779,109	6,368,073	11,147,182	
Capital assets, net of accumulated depreciation:				
Infrastructure	106,345,109	76,462,862	182,807,971	
Buildings	25,431,046	511,869	25,942,915	20,998
Equipment and furniture	6,766,602	1,444,369	8,210,971	8,127
Total Assets	<u>186,637,715</u>	<u>132,779,213</u>	<u>319,416,928</u>	<u>7,050,676</u>
LIABILITIES				
Accounts payable and accrued expenses	2,600,232	1,451,548	4,051,780	749,146
Unearned revenues	388,499		388,499	
Customer deposits	13,351	559,338	572,689	
Accrued interest	305,011	330,612	635,623	8,309
Non current liabilities:				
Due within one year	3,555,866	4,901,134	8,457,000	205,000
Due in more than one year	59,837,581	50,881,977	110,719,558	2,075,000
Total liabilities	<u>66,700,540</u>	<u>58,124,609</u>	<u>124,825,149</u>	<u>3,037,455</u>
NET ASSETS				
Invested in capital assets, net of related debt	102,970,171	62,130,257	165,100,428	70,205
Restricted for:				
Debt Service	966,055	367,685	1,333,740	
Other projects	2,241,932		2,241,932	
Unrestricted	13,759,017	12,156,662	25,915,679	3,943,016
Total net assets	<u>\$ 119,937,175</u>	<u>\$ 74,654,604</u>	<u>\$ 194,591,779</u>	<u>\$ 4,013,221</u>

See notes to financial statements.

CITY OF LEAGUE CITY, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2006

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government				
Governmental Activities				
General government	\$ 10,653,854	\$ 24,336	\$	\$
Public safety	15,002,765	1,888,852	871,289	149,135
Public works	13,927,528	4,850,922		18,597,278
Community services	5,665,064	602,954	751,659	
Interest on long-term debt	1,968,922			
Total governmental activities	<u>47,218,133</u>	<u>7,367,064</u>	<u>1,622,948</u>	<u>18,746,413</u>
Business-type activities				
Water and sewer	<u>14,644,245</u>	<u>19,493,923</u>	<u>45,000</u>	<u>14,313,418</u>
Total primary government	<u>\$ 61,862,378</u>	<u>\$ 26,860,987</u>	<u>\$ 1,667,948</u>	<u>\$ 33,059,831</u>
Component Units				
Governmental activities	<u>\$ 4,385,972</u>	<u>\$ 74,495</u>	<u>\$ 1,605,854</u>	<u>\$</u>

General revenues:

Taxes:
Property taxes, levied for general purposes
Franchise
Sales and use
Unrestricted investment earnings
Miscellaneous
Transfers
Total general revenues and transfers
Change in net assets
Net assets - beginning, as restated
Net assets - ending

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (10,629,518)		\$ (10,629,518)	
(12,093,489)		(12,093,489)	
9,520,672		9,520,672	
(4,310,451)		(4,310,451)	
(1,968,922)		(1,968,922)	
<u>(19,481,708)</u>		<u>(19,481,708)</u>	
	\$ 19,208,096	19,208,096	
<u>(19,481,708)</u>	<u>19,208,096</u>	<u>(273,612)</u>	
			<u>\$ (2,705,623)</u>
23,161,785		23,161,785	3,386,793
3,486,132		3,486,132	
6,303,377		6,303,377	1,225,554
1,301,752	1,493,383	2,795,135	267,280
105,634		105,634	
1,169,449	(1,169,449)		
<u>35,528,129</u>	<u>323,934</u>	<u>35,852,063</u>	<u>4,879,627</u>
16,046,421	19,532,030	35,578,451	2,174,004
103,890,754	55,122,574	159,013,328	1,839,217
<u>\$ 119,937,175</u>	<u>\$ 74,654,604</u>	<u>\$ 194,591,779</u>	<u>\$ 4,013,221</u>

CITY OF LEAGUE CITY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2006

	<u>General Fund</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 13,329,839	\$ 1,021,404	\$ 11,479,543	\$ 25,830,786
Investments	1,000,000			1,000,000
Receivables (net of allowance for uncollectibles)	4,126,506	328,893	300,230	4,755,629
Inventories	11,557			11,557
Prepaid items	16,354			16,354
Total assets	<u>\$ 18,484,256</u>	<u>\$ 1,350,297</u>	<u>\$ 11,779,773</u>	<u>\$ 31,614,326</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 1,570,552	\$ 79,231	\$ 266,655	\$ 1,916,438
Deferred revenue	1,761,274	328,894	16,395	2,106,563
Other accrued expenditures	657,631		8,163	665,794
Customer deposits	12,856		495	13,351
Total liabilities	<u>4,002,313</u>	<u>408,125</u>	<u>291,708</u>	<u>4,702,146</u>
Fund balances:				
Reserved for:				
Inventories	11,557			11,557
Encumbrances	318,915			318,915
Prepaid items	16,354			16,354
Debt service		942,172		942,172
Unreserved	14,135,117			14,135,117
Unreserved, reported in non-major:				
Special revenue funds			2,241,932	2,241,932
Capital projects funds			9,246,133	9,246,133
Total fund balances	<u>14,481,943</u>	<u>942,172</u>	<u>11,488,065</u>	<u>26,912,180</u>
Total liabilities and fund balances	<u>\$ 18,484,256</u>	<u>\$ 1,350,297</u>	<u>\$ 11,779,773</u>	<u>\$ 31,614,326</u>

See notes to financial statements.

CITY OF LEAGUE CITY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
SHEET TO THE STATEMENT OF NET ASSETS
September 30, 2006

Total fund balance, governmental funds \$ 26,912,180

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets. 151,786,772

Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets. 1,718,064

The assets and liabilities of certain internal service funds are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets. 3,218,617

Some liabilities, (such as Long-term Compensated Absences, Bonds Payable and related accrued interest), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.

Bonds and certificates of obligation payable	(61,683,956)	
Compensated Absences	(2,584,134)	
Accrued interest	(305,011)	
Deferred charges	874,643	(63,698,458)

Net Assets of Governmental Activities in the Statement of Net Assets \$ 119,937,175

See notes to financial statements.

CITY OF LEAGUE CITY, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS**

For the Year Ended September 30, 2006

	<u>General Fund</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Property taxes	\$ 14,186,862	\$ 8,937,896	\$	\$ 23,124,758
Sales tax	5,979,313			5,979,313
Hotel occupancy taxes			324,064	324,064
Franchise tax	3,486,132			3,486,132
Fees and fines	1,336,111		104,526	1,440,637
Licenses and permits	2,355,933			2,355,933
Intergovernmental	684,628		527,905	1,212,533
Charges for services	3,336,994		184,778	3,521,772
Investment earnings	698,944	141,081	439,306	1,279,331
Miscellaneous	151,655		503,275	654,930
Total revenues	<u>32,216,572</u>	<u>9,078,977</u>	<u>2,083,854</u>	<u>43,379,403</u>
EXPENDITURES				
Current:				
General government	5,744,817	3,866,895	291,308	9,903,020
Public Safety	12,122,065		196,429	12,318,494
Public Works	8,739,561		86,228	8,825,789
Community services	3,157,449		568,696	3,726,145
Debt Service:				
Principal		2,797,966		2,797,966
Interest and other charges		2,109,014	57,022	2,166,036
Capital Outlay			1,863,203	1,863,203
Total Expenditures	<u>29,763,892</u>	<u>8,773,875</u>	<u>3,062,886</u>	<u>41,600,653</u>
Excess (deficiency) of revenues over expenditures	<u>2,452,680</u>	<u>305,102</u>	<u>(979,032)</u>	<u>1,778,750</u>
OTHER FINANCING SOURCES (USES)				
Issuance of long-term debt			4,695,000	4,695,000
Transfers in	2,483,550		1,706,613	4,190,163
Transfers out	(2,144,986)		(1,314,101)	(3,459,087)
Total other financing sources and uses	<u>338,564</u>		<u>5,087,512</u>	<u>5,426,076</u>
Net change in fund balances	2,791,244	305,102	4,108,480	7,204,826
Fund balances - beginning	11,690,699	637,070	7,492,648	19,820,417
Fund balances - ending	<u>\$ 14,481,943</u>	<u>\$ 942,172</u>	<u>\$ 11,601,128</u>	<u>\$ 27,025,243</u>

See notes to financial statements.

CITY OF LEAGUE CITY, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2006

Net change in fund balances - total governmental funds:		\$ 7,204,826
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.		
This is the amount by which capital outlays \$2,064,705 exceeded depreciation \$9,298,664 in the current period.		(7,233,959)
Contributions of infrastructure by outside entities are not recorded in governmental funds as the contributions do not represent current financial resources.		18,597,278
Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold.		(174,685)
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.		
Municipal court fines	58,976	
Property taxes	<u>37,027</u>	96,003
Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure, In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which proceeds exceeded repayments.		
Principal repayments	3,082,656	
Bond and certificates of obligation proceeds	<u>(4,695,000)</u>	(1,612,344)
Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:		
Accrued interest expense		(218,347)
Amortization of bond costs		130,771
Accrued compensated absences		(552,028)
Internal service funds are used by management to charge the costs of certain activities, such as fleet maintenance and information technology, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.		(191,094)
Change in net assets of governmental activities		<u><u>\$ 16,046,421</u></u>

See notes to financial statements.

CITY OF LEAGUE CITY, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2006

	Business-type Activities Enterprise Fund Water and Wastewater	Governmental Activities - Internal Service Fund
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 10,951,691	\$ 2,938
Investments	493,409	487,100
Accounts Receivable, net	2,526,737	
Restricted cash and investments:		
Customer deposits	559,338	
Capital projects	19,128,392	
Debt service	698,297	
Total current assets	<u>34,357,864</u>	<u>490,038</u>
Non-current assets:		
Contractual rights to water supply	12,935,283	
Capital asset net of depreciation	85,486,066	2,746,579
Total non-current assets	<u>98,421,349</u>	<u>2,746,579</u>
Total assets	<u>132,779,213</u>	<u>3,236,617</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	1,451,548	18,000
Accrued interest payable	330,612	
Customer Deposits	559,338	
Compensated absences	22,000	
Bonds, notes and loans payable	4,879,134	
Total current liabilities	<u>7,242,632</u>	<u>18,000</u>
Non-current liabilities:		
Compensated absences	341,627	
Bonds, notes and loans payable	50,540,350	
Total non-current liabilities	<u>50,881,977</u>	
Total liabilities	<u>58,124,609</u>	<u>18,000</u>
NET ASSETS		
Invested in capital assets, net of related debt	62,130,257	2,746,579
Restricted for debt service	367,685	
Unrestricted	12,156,662	472,038
Total net assets	<u>\$ 74,654,604</u>	<u>\$ 3,218,617</u>

See notes to financial statements.

CITY OF LEAGUE CITY, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended September 30, 2006

	Business-type Activities Enterprise Fund Water and Wastewater	Governmental Activities - Internal Service Fund
REVENUES		
Charges for services	\$ 19,493,923	\$
Total operating revenues	<u>19,493,923</u>	<u></u>
OPERATING EXPENSES		
Personal services	3,921,658	
Contractual services	2,883,829	
Utilities	912,450	
Repairs and maintenance	699,047	
Other supplies and expenses	693,202	
Depreciation	2,654,895	651,891
Total Operating Expenses	<u>11,765,081</u>	<u>651,891</u>
Operating income (loss)	<u>7,728,842</u>	<u>(651,891)</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest and investment revenue	1,493,383	22,424
Operating grants and contributions	45,000	
Interest expense	(2,932,139)	
(Loss) on disposal of assets	52,975	
Total non-operating revenue (expenses)	<u>(1,340,781)</u>	<u>22,424</u>
Income (loss) before contributions and transfers	6,388,061	(629,467)
Capital contributions	14,313,418	
Transfers in	180,551	507,791
Transfers out	(1,350,000)	(69,418)
Change in net assets	19,532,030	(191,094)
Total net assets - beginning, as restated	<u>55,122,574</u>	<u>3,409,711</u>
Total net assets - ending	<u>\$ 74,654,604</u>	<u>\$ 3,218,617</u>

See notes to financial statements.

CITY OF LEAGUE CITY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2006

	<u>Business-type Activities</u>	<u>Governmental Activities</u>
	<u>Water and Wastewater Enterprise Fund</u>	<u>Internal Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers and users	\$ 19,853,659	\$
Disbursed for personnel services	(3,874,215)	
Disbursed for goods and services	(5,126,194)	(37,577)
Net cash provided (used) by operating activities	<u>10,853,250</u>	<u>(37,577)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Due from other funds		
Transfers from other funds	180,551	507,791
Transfers to other funds	(1,350,000)	(69,418)
Net cash provided by (used by) noncapital financing activities	<u>(1,169,449)</u>	<u>438,373</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on debt	(4,416,489)	
Acquisition and construction of capital assets	(6,898,570)	(425,633)
Capital recovery fees	3,489,820	
Operating grants	45,000	
Interest paid on capital debt	(2,932,139)	
Net cash used by capital and related financing activities	<u>(10,712,378)</u>	<u>(425,633)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of investments	3,506,591	
Interest and dividend received	1,493,383	22,424
Net cash provided by (used by) investing activities	<u>4,999,974</u>	<u>22,424</u>
Net decrease in cash and equivalents	3,971,397	(2,413)
Cash and equivalents, beginning of year	<u>27,366,321</u>	<u>5,351</u>
Cash and equivalents, at end of year	<u>\$ 31,337,718</u>	<u>\$ 2,938</u>
Unrestricted cash and equivalents	\$ 10,951,691	\$ 2,938
Restricted cash and equivalents	20,386,027	
	<u>\$ 31,337,718</u>	<u>\$ 2,938</u>

	<u>Business-type Activities</u> <u>Water and Wastewater Enterprise Fund</u>	<u>Governmental Activities</u> <u>Internal Service Fund</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating Income (Loss)	\$ 7,728,842	\$ (651,891)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	2,654,895	651,891
(Increase) decrease in accounts receivable	331,690	
Increase (decrease) in accounts payable	62,334	(37,577)
Increase (decrease) in customer deposits	28,046	
Increase (decrease) in compensated absences	47,443	
Net cash provided (used) by operating activities	<u>\$ 10,853,250</u>	<u>\$ (37,577)</u>
Capital assets contributed during the year (non cash)	<u>\$ 10,823,598</u>	

See notes to financial statements.

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of League City, Texas (the "City") was incorporated in May 1962 and has adopted a Home-Rule Charter. The Charter provides for a "Mayor-Council" form of City government. A Mayor and seven Council members are elected by voters of the City at large for three-year terms.

The City Council is the principal legislative and administrative body of the City. Subject to confirmation of the City Council, the Mayor has the power to appoint all boards, commissions, agencies, and officers provided for in the Charter or by ordinance. Departments and agencies of the City submit budget requirements to the Mayor. The Mayor is the presiding officer of the City Council and does not vote except in the case of a tie vote.

The City provides the following services: public safety (police, fire, and EMS), public works, parks and recreation, library, water and sewer, and general administrative services.

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

In conformity with generally accepted accounting principles, the financial statements of component units have been included in the financial reporting entity as discretely presented component units.

Governmental Activities:

City of League City Section 4B Economic Development Corporation

All powers of the Corporation are vested in a Board consisting of seven (7) persons who are appointed by the City Council. The Board acts on behalf of the City in administering the provisions of Section 4B, Article 5190.6, of the Development Act of 1979, State of Texas. The Corporation is funded by a 1/4% local sales and use tax approved by local voters. The Corporation is fiscally dependent on the City because the capital budgets are approved by City Council. In addition, the Corporation is prohibited from issuing bonded debt without approval of the City Council

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Reporting Entity (continued)

City of League City Economic Development Corporation

The members of the governing board are appointed by the City Council and operational and capital budgets are approved by the Council as well. Bonds were authorized by City Council to finance a commercial project within or adjacent to eligible blighted areas (EBA). The Economic Development Revenue Bonds have not been issued.

Destination League City Convention and Visitors Corporation

The majority of the members of the governing Board are appointed by City Council. One member of the City Council also serves as an ex-officio member of the Board. Operating and capital budgets must be approved each year by City Council. The Corporation was created to manage and supervise the programs and activities with revenue from a Hotel Occupancy Tax. The tax revenues are limited to promote tourism and the convention and hotel industry as defined in Subchapter B of Chapter 351 of the Tax Code (paragraph 351.101 and 351.103 of Vernon's Texas Civil Statutes).

City of League City Tax Increment Reinvestment Zone (TIRZ) No. 1 – Magnolia Creek

Most of the six members of the governing Board are appointed by City Council as dictated by Chapter 311 of the Texas Tax Code. This entity was created to provide the financing and management tool needed to facilitate development of a master planned community and golf course within the boundaries of the City. The TIRZ Board also oversees the operations of the Public Improvement District (PID) created in conjunction with the Zone.

City of League City Tax Increment Reinvestment Zone (TIRZ) No. 2 – Victory Lakes

Most of the seven members of the governing Board are appointed by City Council as dictated by Chapter 311 of the Texas Tax Code. The Clear Creek Independent School District (CCISD) is a participant in this reinvestment zone and does appoint one member to the Board. This entity was created to provide the financing and management tool needed to facilitate the development of a master planned community and business park within the boundaries of the City. The TIRZ Board also oversees the operations of the Public Improvement District (PID) created in conjunction with the Zone.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Reporting Entity (continued)

City of League City Tax Increment Reinvestment Zone (TIRZ) No. 3 – Center Pointe

Most of the six members of the governing Board are appointed by City Council as dictated by Chapter 311 of the Texas Tax Code. This entity was created to provide the financing and management tool needed to facilitate the development of a master planned community and business park within the boundaries of the City. The TIRZ Board also oversees the operations of the Public Improvement District (PID) created in conjunction with the Zone.

City of League City Public Improvement District No. One - Magnolia Creek

The TIRZ Board oversees the operations of the Public Improvement District (PID) created in conjunction with the TIRZ Zone. This entity was created to assist in the financing of the residential cost of a master planned community. The revenues are derived from an assessment levied against each residential lot. The assessment can be paid in full at the time of final occupancy or may be financed for a period of 15-20 years.

City of League City Public Improvement District No. Two - Victory Lakes

The TIRZ Board oversees the operations of the Public Improvement District (PID) created in conjunction with the TIRZ Zone. This entity was created to assist in the financing of the residential cost of a master planned community. The revenues are derived from an assessment levied against each residential lot. The assessment can be paid in full at the time of final occupancy or may be financed for a period of 15-20 years.

City of League City Public Improvement District No. Three - CenterPointe

The TIRZ Board oversees the operations of the Public Improvement District (PID) created in conjunction with the TIRZ Zone. This entity was created to assist in the financing of the residential cost of a master planned community. The revenues are derived from an assessment levied against each residential lot. The assessment can be paid in full at the time of final occupancy or may be financed for a period of 15-20 years.

City of League City Public Improvement District No. Five - Park on Clear Creek

The Park on Clear Creek Development Authority oversees the operations of the Public Improvement District (PID). This entity was created to assist in the financing of the residential cost of a master planned community. The revenues are derived from an assessment levied against each residential lot. The assessment can be paid in full at the time of final occupancy or may be financed for a period of 25 years.

League City Emergency Medical Services

The members of the governing board are appointed by the City Council. The City Ambulance Board is responsible to the City Council for providing ambulance service for the Citizens of League City. The Board's operational and capital budgets are approved by the City Council.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Reporting Entity (continued)

League City Volunteer Fire Department

The members of the governing board are appointed by City Council. A budget is approved annually to provide fire protection to the Citizens of League City.

The component units identified above are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. The City appoints a majority of these organizations' board and is either able to impose its will on them or a financial benefit/burden exists.

Complete financial statements of the individual component units can be obtained directly from administrative offices of the City of League City, 300 West Walker, League City, Texas 77573.

The financial reporting entity consists of the primary government and other organizations for which the primary government is financially accountable.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

Not included as part of the City's reporting entity are 17 municipal utility districts or MUD's. The City acts as an "Operator" of the facilities. The City rebates to nine of the districts 8-40% of taxes levied and collected within the districts but does not guarantee the debt of the districts. The Municipal Utility District's Board of Directors is elected officials and the City exercises no control over the governing authority. The City has ownership rights in the facilities, however, the City does not have title to the assets until such time after the districts' debt is retired and the facilities are contributed to the City.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information about the City as a whole. These statements include all activities of the primary government and its component units. For the most part the effect of interfund activity has been removed from these statements with the exception of interfund services provided and used. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

General property taxes are recorded as receivables when levied and as revenue in the period for which they were levied and become available. Property taxes receivable have been recorded as deferred revenues at year-end. Property taxes collected within 60 days subsequent to year end, have not been recorded as revenue as the amount is not considered material. Franchise taxes and Sales taxes relating to underlying transactions that occurred prior to year end, have been recorded as receivables and revenue. Licenses and permits, and fines are not susceptible to accrual since they are not measurable until received. Revenue on federal and state cost-reimbursement grants is accrued when the related expenditures are incurred. Interest is recorded when earned.

The City reports the following major governmental funds:

The *General Fund* is used to account for all financial transactions that are not accounted for in another fund. The principal sources of revenue of the General Fund are property taxes, sales and use taxes, franchise taxes, licenses and permits, and fines and forfeitures. Expenditures are for general government, public safety, public works and other community services.

The *Debt Service Fund* is used to account for the payment of interest and principal on all general long-term debt of the City except for capital leases which are accounted for in the General Fund. The primary source of revenue for the Debt Service Fund is general property taxes.

The City has one major proprietary fund

The *Water and Wastewater Enterprise Fund* is used to account for operations of the water and wastewater division and the construction of related facilities. The fund is financed and operated in a manner similar to private business enterprises - where the intent of the City is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The acquisition, maintenance and improvement of the physical plant facilities required to provide these goods and services are financed from existing cash resources, the issuance of bonds (revenue or general obligation), federal grants, impact fees and other City funds.

Private-sector standards for accounting and financial reporting issued prior to December 1, 1999, generally are followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. The City has elected not to follow private sector guidance issued subsequent to that date.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Additionally the City reports the following fund type:

The *Internal Service Fund* is used to account for the financing of capital replacement items for governmental activities, on a cost reimbursement basis. This fund is also used to account for the systematic transfers of funds from general governmental and enterprise funds to accumulate, invest and purchase capital assets.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the water and wastewater enterprise fund are charges to customers for sales and services. Operational expenses for the fund and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues not meeting this definition are reported as non-operating revenues and expenses.

The City classifies net assets into three components as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings.
- Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through contractual provisions or enabling legislation.
- Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

D. Cash and equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, balances in a privately managed public funds investment pool ("TexPool") and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the Proprietary Fund Types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Cash and equivalents (continued)

The City pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. For cash management purposes, the City has a sweep arrangement with the bank to transfer cash balances to a Money Market Mutual Fund account each day. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the City's investments.

The City pools excess cash of the various individual funds to purchase these investments. These pooled investments are reported in the combined balance sheet as Investments in each fund based on each fund's share of the pooled investments. Interest income is allocated to each respective individual fund, monthly, based on their respective share of investments in the pooled investments.

E. Investments

Investments consist of in United States (US) Government and Agency securities. The City reports all investments at fair value based on quoted market prices at year-end date.

F. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Estimated unbilled revenues from the Water and Sewer Fund are recognized at the end of each fiscal year on a pro rata basis. The estimated amount is based on billings during the month following the close of the fiscal year.

G. Due To and From Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. These receivable and payables are, for the most part, eliminated from the Government-Wide Statement of Net Assets and are recorded as "due from other funds" or "due to other funds" in the fund financial statements.

H. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund- type inventories are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Capital Assets

Capital assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of \$5,000 and an estimated useful life in excess of one year. All purchased capital assets are valued at cost where historical records exist. Donated capital assets are valued at their estimated fair value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements, including public domain and equipment are capitalized and depreciated over the remaining useful lives of the related capital assets using the straight line method, as applicable.

<u>Asset</u>	<u>Estimated Useful Lives</u>
Streets and improvements	50 years
Water and sewer system	50 years
Heavy equipment	20 years
Building and improvements	15 years
Furniture and fixtures	10 years
Automobiles, trucks and equipment	5 years

J. Compensated Absences

Employees earn vacation based on years of service with the City and may accrue a maximum amount of vacation leave in the following non-cumulative amounts depending on length of service:

<u>Length of Service</u>	<u>Maximum vacation leave accrual</u>
1 – 60 months	160 hours
61 – 120 months	240 hours
121 – 180 months	320 hours
181 – 240 months	400 hours
more than 240	480 hours

In accordance with GAAP, the liability for accumulated vacation at September 30, 2006 has been recorded as a liability in the Government-Wide Statement of Net Assets. Upon retirement from the City of League City, an employee will receive compensation for unused sick leave hours. No compensation will be made for accrued sick leave in excess of seven hundred twenty (720) hours. Civil service personnel are also compensated for accrued sick leave up to 90 days upon termination of employment.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. General Property Taxes

All taxes due the City on real or personal property are payable at the Office of the City Assessor-Collector and may be paid at any time after the tax rolls for the year have been completed and approved, which is October 1, or as soon thereafter as practicable. Taxes are due upon receipt and all taxes not paid prior to February 1 are deemed delinquent and are subject to such penalty and interest set forth by the Property Tax Code. All property located within the City limits on the first day of January of each year are charged with a special lien in favor of the City from such date for taxes due thereon.

L. Debt Service

The ad valorem tax rate is allocated each year between the General Fund and the Debt Service Fund. The full amount estimated to be required for debt service on the general obligation debt is provided by the debt service tax together with interest earned in the Debt Service Fund.

M. Restricted Assets

Certain proceeds of bonds, as well as other resources set aside for specific purposes are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or contractual agreements. Restricted assets of the Enterprise Fund are restricted by bond covenants for repayment of debt and to finance construction projects.

N. Bond Discounts/Issuance Costs

In governmental fund types, bond discounts and issuance costs are recognized in the current period and are deferred and amortized in the Government-wide Statement of Activities. Bond discounts and issuance costs for proprietary fund types are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method. Bond discounts and issuance costs are recorded as deferred charges.

O. Fund Equity

In the fund financial statement the City reserves or designates all or portions of fund equity in the various governmental fund financial statements. The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes. Unreserved net assets for proprietary funds represent the net assets available for future operations or distribution. Reserved net assets for proprietary funds represent the net assets that have been legally identified for specific purposes.

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. Post-employment Healthcare Benefits

The City does provide post-employment healthcare benefits as mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA). The requirements established by COBRA are fully funded by employees who elect coverage under the Act, and the City incurs no direct costs. In January of 2004, the City approved the payment of health insurance premiums for eligible retirees. Coverage is offered to those employees who are at least 60 years of age and who are retiring with 20 years of service with the City. The retiree cost for health insurance will be covered until the retiree reaches the age of 65. At this time, the retiree would then be eligible for the Medicare, Part B coverage at their own expense.

NOTE 2 – DEPOSITS (CASH) AND INVESTMENTS

Authorization for Deposits and Investments

The Texas Public Funds Investment Act (PFIA), as prescribed in Chapter 2256 of the Texas Government Code, regulates deposits and investment transactions of the City.

In accordance with applicable statutes, the City has a depository contract with an area bank (depository) providing for interest rates to be earned on deposited funds and for banking charges the City incurs for banking services received. The City may place funds with the depository in interest and non-interest bearing accounts. State law provides that collateral pledged as security for bank deposits must have a market value of not less than the amount of the deposits and must consist of: (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas; and/or (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as *to* investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent. City policy requires the collateralization level to be at least 102% of market value of principal and accrued interest.

The Council has adopted a written investment policy regarding the investment of City funds as required by the Public Funds Investment Act (Chapter 2256, Texas Government Code). The investments of the City are in compliance with the City's investment policy. The City's investment policy is more restrictive than the PFIA requires. It is the City's policy to restrict its direct investments to obligations of the U.S. Government or U.S. Government Agencies, fully collateralized certificates of deposit, banker's acceptances, mutual funds, repurchase agreements, commercial paper and government/private sponsored investment pools. The maximum maturity allowed is three years from date of purchase. The City's investment policy does not allow investments in collateralized mortgage obligations, floating rate investments or swaps.

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – DEPOSITS (CASH) AND INVESTMENTS (continued)

Deposit and Investment Amounts

The City's cash and investments are classified as: cash and cash equivalents, investments, and restricted cash and investments. The cash and cash equivalents include cash on hand, deposits with financial institutions, short-term investments in a privately-managed public funds investment pool account (TexPool) and the Texas Short Term Asset Reserve Program (TexStar). The investments, which have maturities at purchase of greater than three months, consist mainly of U.S. Government treasury bills, treasury notes, and other U.S. Government obligations. The restricted cash and investments are assets restricted for specific use. The restricted cash and investments include cash on deposit with financial institutions, TexPool, and U.S. Government Securities. For better management of cash, the City pools the cash, based on the City's needs, into either deposits in the bank/sweep accounts, in short term investments with TexPool, or in longer-term investments in U.S. Government Securities. However, each fund's balance of cash and investments is maintained in the books of the City. The following schedule shows the City's recorded cash and investments at year-end:

	Total Fair Value
Cash deposits	\$ 1,103,190
Temporary Investments	
FHLB	1,480,225
FNMA	981,238
Public Funds Investment Pools	
TexPool	20,736,031
TexStar	34,851,267
	<u>\$ 59,151,951</u>

Quoted market prices are the basis of the fair value for US Treasury and Agency securities . The amount of increase or decrease in the fair value of investments during the current year is included in the City's investment income as follows:

Interest income	\$ 2,833,671
unrealized gain (loss) on temporary investments	<u>(38,536)</u>
Investment earnings	<u>\$ 2,795,135</u>

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – DEPOSITS (CASH) AND INVESTMENTS (continued)

Investment Risks

Interest Rate Risk

At year-end, the City had the following investments subject to interest rate risk disclosure, under U.S. generally accepted accounting principles:

	<u>Fair Value</u>	<u>Weighted Average Maturity (days)</u>
Temporary Investments		
Government securities		
U.S. Treasury Notes		
U.S. Agency Securities	\$ 2,461,463	153
Public Funds Investment Pools		
TexPool	20,736,031	1
TexStar	34,851,267	1
	<u>\$ 58,048,761</u>	
Portfolio weighted average maturity		<u><u>7</u></u>

The City measures interest rate risk using the weighted average maturity method for the portfolio. The City’s investment policy specifies a maximum weighted average maturity of 365 days or 12 months based on the stated maturity date for each investment in the portfolio.

To the extent possible, the City attempts to match investments with anticipated cash flow requirements. The City does not directly invest in securities with a stated maturity date more than three years or 1095 days from date of purchase. The settlement date is considered the date of purchase

Concentration of Credit Risk

The City’s investment policy allows investments by type based on the following diversification requirements:

<u>Investment Type</u>	<u>Maximum Investment %</u>
Repurchase Agreements	up to 50%
Certificates of Deposit	up to 50%
U.S. Treasury Bills/Notes	up to 100%
Other U.S. Government Securities	up to 75%
Authorized Investment Pools	up to 75% total
Bankers' Acceptances	up to 25%
No Load Money Market Mutual Funds	up to 50%

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – DEPOSITS (CASH) AND INVESTMENTS (continued)

The City had investments in U.S. Agency securities that exceeded five percent of the total investment portfolio at year-end. The City investment policy allows these investment levels for the portfolio.

Investment Type	Fair Value	Percentage of Total Portfolio
FHLB	\$ 1,480,225	3%
FNMA	981,238	2%
TexPool	20,736,031	36%
TexStar	34,851,267	60%
Total	\$ 58,048,761	100%

Credit Risk

At year-end balances in TexPool, a privately managed public funds investment pool, was rated AAAM by Standard & Poor’s.

Federal Home Loan Mortgage Corporation (FLHMC) agency notes, Federal Home Loan Bank (FHLB) agency notes, and Federal National Mortgage Association (FNMA) agency notes were rated AAA by Standard & Poor’s, AAA by Fitch Ratings, and Aaa by Moody’s Investors Service.

All credit ratings meet acceptable levels required by guidelines prescribed by both the PFIA and the City’s investment policy. A public fund investment pool must be continuously rated no lower than AAA or AAAM or no lower than investment grade by at least one nationally recognized rating service and have a weighted average maturity no greater than 90 days. Investments with minimum required ratings do not qualify as authorized investments during the period the investment does not have the minimum rating.

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – DEPOSITS (CASH) AND INVESTMENTS (continued)

Restricted Assets

As of September 30, 2006, the City held restricted cash and temporary investments in the water and sewer enterprise fund for the following purposes:

<u>Purpose</u>	<u>Amount</u>
Customer deposits	\$ 559,338
Construction	19,128,392
Debt service	698,297
	<u>\$ 20,386,027</u>

The City maintains several cash and investment pools that are available for use by all funds. Each fund type's portion of these pools is displayed on the combined balance sheet as "Equity in pooled cash and investments." In addition, cash and investments are held separately by several of the City's funds.

Investments The Texas Short Term Asset Reserve Program (TexStar) has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These two acts provide for the creation of public funds investment pools and authorize eligible government entities to invest their public funds and funds under their control through the investment pools.

JP Morgan Fleming Asset Management, Inc. and First Southwest Asset Management, Inc. serve as co administrators for TexStar under an agreement with the TexStar board of directors. JP Morgan Fleming Asset Management, Inc. Provides investment services and First Southwest Asset Management, Inc. provides participant services and marketing. Custodial, transfer agency, fund accounting and depository services are provided by JP Morgan Chase Bank and/or its subsidiary JP Morgan Investor Services Co.

The primary objectives of TexStar are, in order of priority, preservation and protection of principal, maintenance of sufficient liquidity to meet participants' needs, diversification to avoid unreasonable or avoidable risks and yield. The only source of payment of participants is the market value of assets of the TexStar Fund in which they invest and the income and profits derived from those assets.

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - RECEIVABLES

Amounts recorded as receivables as of September 30, 2006 for the government's individual major and non-major funds, including the applicable allowance for uncollectible accounts, are as follows:

	General	Debt Service	Water and Wastewater	Nonmajor Funds	Total
Receivables:					
Taxes	\$ 1,451,590	\$ 779,521	\$	\$ 79,403	\$ 2,310,514
Accounts	2,729,700		2,551,120		5,280,820
Outstanding warrants	2,956,601				2,956,601
Due from other governments				49,703	49,703
Interest	13,417		16,708		30,125
Other	2,767			171,124	173,891
Gross receivables	<u>7,154,075</u>	<u>779,521</u>	<u>2,567,828</u>	<u>300,230</u>	<u>10,627,763</u>
Less: allowance for uncollectibles	<u>(3,027,569)</u>	<u>(450,628)</u>	<u>(41,091)</u>		<u>(3,519,288)</u>
Net total receivables	<u>\$ 4,126,506</u>	<u>\$ 328,893</u>	<u>\$ 2,526,737</u>	<u>\$ 300,230</u>	<u>\$ 7,108,475</u>

NOTE 4 – CAPITAL ASSETS

A summary of changes in governmental activities capital assets of the City for the year ended September 30, 2006 follows:

	Balance September 30, 2005	Additions	Deletions	Balance September 30, 2006
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 11,182,171	\$ 29,314	\$	\$ 11,211,485
Construction in progress	4,249,347	734,253	(204,491)	4,779,109
Total capital assets, not being depreciated	<u>15,431,518</u>	<u>763,567</u>	<u>(204,491)</u>	<u>15,990,594</u>
Capital assets being depreciated:				
Infrastructure	187,847,401	18,627,699	(343)	206,474,757
Buildings and improvements	33,559,134	251,000		33,810,134
Machinery and equipment	15,207,595	1,804,675	(872,240)	16,140,030
Total capital assets being depreciated	<u>236,614,130</u>	<u>20,683,374</u>	<u>(872,583)</u>	<u>256,424,921</u>
Less accumulated depreciation for:				
Infrastructure	(93,421,741)	(6,708,250)	343	(100,129,648)
Building and improvements	(6,707,369)	(1,671,719)		(8,379,088)
Machinery and equipment	(8,452,317)	(1,570,586)	624,935	(9,397,968)
Total accumulated depreciation	<u>(108,581,427)</u>	<u>(9,950,555)</u>	<u>625,278</u>	<u>(117,906,704)</u>
Total capital assets being depreciated, net	<u>128,032,703</u>	<u>10,732,819</u>	<u>(247,305)</u>	<u>138,518,217</u>
Governmental activities capital assets, net	<u>\$ 143,464,221</u>	<u>\$ 11,496,386</u>	<u>\$ (451,796)</u>	<u>\$ 154,508,811</u>

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

NOTE 4 – CAPITAL ASSETS (continued)

A summary of changes in business-type activities capital assets of the City for the year ended September 30, 2006 follows:

	<u>Balance September 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2006</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 698,893	\$	\$	\$ 698,893
Construction in progress	2,801,119	7,912,479	(4,345,525)	6,368,073
Total capital assets, not being depreciated	<u>3,500,012</u>	<u>7,912,479</u>	<u>(4,345,525)</u>	<u>7,066,966</u>
Capital assets being depreciated:				
Infrastructure	79,188,644	15,885,611		95,074,255
Buildings and improvements	178,992	469,999		648,991
Machinery and equipment	<u>5,187,360</u>	<u>191,728</u>	<u>(128,034)</u>	<u>5,251,054</u>
Total capital assets being depreciated	84,554,995	16,547,338	(128,034)	100,974,299
Less accumulated depreciation for:				
Infrastructure	(16,941,598)	(1,674,995)	5,200	(18,611,393)
Building and improvements	(129,815)	(7,307)		(137,122)
Machinery and equipment	<u>(3,249,851)</u>	<u>(684,868)</u>	<u>128,034</u>	<u>(3,806,685)</u>
Total accumulated depreciation	(20,321,264)	(2,367,170)	133,234	(22,555,200)
Total capital assets being depreciated, net	<u>64,233,731</u>	<u>14,180,168</u>	<u>5,200</u>	<u>78,419,099</u>
Business-type activities capital assets, net	<u>\$ 67,733,743</u>	<u>\$ 22,092,647</u>	<u>\$ (4,340,325)</u>	<u>\$ 85,486,065</u>

Depreciation was charged to functions of the primary government as follows:

Governmental activities:

General	56,825
Public safety	1,029,103
Public works	6,693,268
Community services	1,519,468
Internal service fund	651,891
	<u>\$ 9,950,555</u>

Business-type activities:

Water and sewer	<u>\$ 2,367,170</u>
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CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

NOTE 4 – CAPITAL ASSETS (continued)

Discretely Presented Business Type Component Unit

	Balance September 30, 2005	Additions	Deletions	Balance September 30, 2006
Volunteer Fire Department				
Capital assets, not being depreciated:				
Land	\$ 41,080	\$	\$	\$ 41,080
Capital assets being depreciated:				
Buildings and improvements	115,013			115,013
Machinery and equipment	45,806			45,806
Total capital assets being depreciated	160,819			160,819
Less accumulated depreciation for:				
Building and improvements	(87,878)	(6,137)		(94,015)
Machinery and equipment	(34,174)	(3,505)		(37,679)
Total accumulated depreciation	(122,052)	(9,642)		(131,694)
Total capital assets being depreciated, net	38,767	(9,642)		29,125
Voluntary Fire Department, Net	<u>\$ 79,847</u>	<u>\$ (9,642)</u>	<u>\$</u>	<u>\$ 70,205</u>

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

NOTE 4 – CAPITAL ASSETS (continued)

Construction in progress for the various projects and remaining commitments under these construction contracts at September 30, 2006, are as follows:

Governmental Activities	Authorized Contract	Contract Expenditures	Remaining Contract
Hike & Bike, Phase II	\$ 60,274	\$ 56,421	\$ 3,853
Butler Museum	899,775	889,231	10,544
Heritage Park	512,619	53,184	459,435
Clear Creek Heights Drainage	171,432	146,012	25,420
NPDES Stormwater Plan	46,995	20,224	26,771
Clear Creek Nature Park	212,322	175,255	37,067
Fire Station #1 Renovation	110,000	109,900	100
Brittany Bay Blvd	413,403	353,866	59,537
Palomino Road	1,932,805	202,111	1,730,694
	<u>\$ 4,359,625</u>	<u>\$ 2,006,204</u>	<u>\$ 2,353,421</u>

Business-type Activities	Authorized Contract	Contract Expenditures	Remaining Contract
Southwest WWTP	\$ 31,354	\$ 23,489	\$ 7,865
DSWWTP Lift Station Exp & Headworks	5,397,261	4,105,992	1,291,269
DSWWTP 4.5 MGD Expansion	1,358,671	771,050	587,621
24" Gravity Line - Butler Road	180,532	155,226	25,306
30" Waterline, West Side	236,000	108,761	127,239
2005 Sanitary Sewer Rehab	344,005	172,990	171,015
Palamino Rd-18" Gravity SL	878,156	625,931	252,225
Safari Mobile Home SS rehab.	49,500	49,500	0
Hwy 3 Pump Station, Phase 2	88,000	74,700	13,300
FM 519 Utility Adjustments	277,449	277,449	0
Magnolia Creek Force Main	9,950	2,985	6,965
	<u>\$ 8,850,878</u>	<u>\$ 6,368,073</u>	<u>\$ 2,482,805</u>

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - LONG-TERM DEBT

The City issues a variety of long-term debt instruments in order to acquire and/or construct major capital facilities (streets, drainage, public safety, water and wastewater) and equipment for general government and enterprise fund activities. These instruments include general obligation bonds, certificates of obligation and revenue bonds. Future ad valorem tax revenues, water and sewer system revenues or liens on property and equipment secure these debt obligations.

During the year ended September 30, 2006 the following changes occurred in long-term liabilities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
General obligation bonds	\$ 17,462,650	\$	\$ (1,147,367)	\$ 16,315,283	\$ 1,551,621
Certificates of obligation	42,494,788	4,695,000	(1,821,115)	45,368,673	1,874,245
Deferred bond issuance costs	(864,181)	(57,022)	46,560	(874,643)	
Compensated absences	2,032,107	157,293	(394,734)	2,584,134	130,000
Governmental activity Long-term liabilities	<u>\$ 61,125,364</u>	<u>\$ 4,795,271</u>	<u>\$ (3,316,656)</u>	<u>\$ 63,393,447</u>	<u>\$ 3,555,866</u>
Business-type Activities					
Revenue bonds	\$ 25,835,000	\$	\$ (1,285,000)	\$ 24,550,000	\$ 1,310,000
General obligation bonds	22,537,322		(2,177,605)	20,359,717	2,583,379
Certificates of obligation	6,795,212		(443,884)	6,351,328	455,755
Contract revenue bonds	6,210,000		(510,000)	5,700,000	530,000
Deferred bond issuance costs	(1,678,453)		136,892	(1,541,561)	
Compensated absences	316,184	316,134	(268,691)	363,627	22,000
Business-type activity Long-term liabilities	<u>\$ 60,015,265</u>	<u>\$ 316,134</u>	<u>\$ (4,548,288)</u>	<u>\$ 55,783,111</u>	<u>\$ 4,901,134</u>
Component Unit					
Revenue bonds	<u>\$ 2,475,000</u>	<u>\$</u>	<u>\$ (195,000)</u>	<u>\$ 2,280,000</u>	<u>\$ 205,000</u>
Total Long-term liabilities	<u>\$ 2,475,000</u>	<u>\$</u>	<u>\$ (195,000)</u>	<u>\$ 2,280,000</u>	<u>\$ 205,000</u>

Governmental activity compensated absences have traditionally been liquidated out of the General Fund in the prior years.

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - LONG-TERM DEBT (continued)

Annual debt service requirements to retire outstanding general obligation bonds are as follows:

Year Ending September 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 1,551,621	\$ 646,867	\$ 2,198,488	\$ 2,583,379	\$ 927,593	\$ 3,510,971
2008	1,513,520	579,654	2,093,174	2,681,480	803,831	3,485,311
2009	1,521,763	514,638	2,036,401	2,893,237	669,976	3,563,213
2010	1,652,864	449,698	2,102,563	3,047,136	525,477	3,572,613
2011	1,632,840	378,795	2,011,635	3,167,160	371,019	3,538,179
2012	1,682,404	304,724	1,987,128	3,327,596	207,144	3,534,740
2013	1,509,708	233,370	1,743,078	1,530,292	82,852	1,613,144
2014	1,718,572	165,107	1,883,679	356,428	35,668	392,096
2015	742,497	117,869	860,366	162,503	25,797	188,299
2016	553,796	95,648	649,444	121,204	20,933	142,137
2017	553,796	75,919	629,715	121,204	16,616	137,819
2018	557,899	55,421	613,319	122,101	12,129	134,231
2019	562,001	33,720	595,721	122,999	7,380	130,379
2020	562,001	11,240	573,241	122,999	2,460	125,459
	<u>\$ 16,315,283</u>	<u>\$ 3,662,669</u>	<u>\$ 19,977,953</u>	<u>\$ 20,359,717</u>	<u>\$ 3,708,874</u>	<u>\$ 24,068,591</u>

Annual debt service requirements to retire outstanding revenue bonds are as follows:

Year Ending September 30	Business-type Activities			Component Unit		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 1,840,000	\$ 1,258,432	\$ 3,098,432	\$ 205,000	\$ 124,550	\$ 329,550
2008	1,885,000	1,182,284	3,067,284	215,000	113,685	328,685
2009	1,920,000	1,106,779	3,026,779	225,000	102,075	327,075
2010	1,965,000	1,026,622	2,991,622	235,000	89,925	324,925
2011	2,010,000	941,707	2,951,707	250,000	77,000	327,000
2012	2,055,000	854,059	2,909,059	265,000	63,250	328,250
2013	1,610,000	763,157	2,373,157	280,000	48,675	328,675
2014	1,640,000	694,251	2,334,251	295,000	33,275	328,275
2015	1,655,000	625,995	2,280,995	310,000	17,050	327,050
2016	1,675,000	558,455	2,233,455			
2017	1,700,000	488,864	2,188,864			
2018	1,735,000	417,395	2,152,395			
2019	1,760,000	343,803	2,103,803			
2020	1,785,000	268,285	2,053,285			
2021	1,285,000	201,306	1,486,306			
2022	1,035,000	141,939	1,176,939			
2023	855,000	100,283	955,283			
2024	900,000	62,100	962,100			
2025	940,000	21,150	961,150			
	<u>\$ 30,250,000</u>	<u>\$ 11,056,862</u>	<u>\$ 41,306,862</u>	<u>\$ 2,280,000</u>	<u>\$ 669,485</u>	<u>\$ 2,949,485</u>

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

NOTE 5 – LONG-TERM DEBT (continued)

Annual debt service requirements to retire outstanding certificates of obligation are as follows:
CERTIFICATES OF OBLIGATION

Year Ending September 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 1,874,245	\$ 1,948,353	\$ 3,822,598	\$ 455,755	\$ 302,587	\$ 758,342
2008	1,900,505	1,811,235	3,711,740	469,496	280,666	750,162
2009	1,961,763	1,736,886	3,698,649	483,237	257,812	741,049
2010	2,023,022	1,657,250	3,680,272	501,978	233,861	735,839
2011	2,092,410	1,572,728	3,665,138	522,590	208,662	731,251
2012	2,163,670	1,484,029	3,647,699	541,331	182,177	723,508
2013	2,243,058	1,390,450	3,633,508	561,942	154,343	716,285
2014	1,740,000	1,304,234	3,044,234	345,000	131,593	476,593
2015	1,805,000	1,235,744	3,040,744	360,000	114,320	474,320
2016	1,880,000	1,165,090	3,045,090	380,000	96,000	476,000
2017	1,955,000	1,090,164	3,045,164	400,000	76,500	476,500
2018	2,045,000	1,009,827	3,054,827	420,000	56,000	476,000
2019	2,120,000	923,464	3,043,464	445,000	34,375	479,375
2020	2,220,000	832,127	3,052,127	465,000	11,625	476,625
2021	2,315,000	735,664	3,050,664			
2022	2,420,000	633,334	3,053,334			
2023	2,520,000	525,098	3,045,098			
2024	2,085,000	419,551	2,504,551			
2025	1,635,000	320,545	1,955,545			
2026	1,120,000	257,778	1,377,778			
2027	805,000	214,016	1,019,016			
2028	840,000	176,750	1,016,750			
2029	660,000	143,281	803,281			
2030	690,000	113,750	803,750			
2031	720,000	82,906	802,906			
2032	750,000	50,750	800,750			
2033	785,000	17,172	802,172			
	<u>\$ 45,368,673</u>	<u>\$ 22,852,175</u>	<u>\$ 68,220,848</u>	<u>\$ 6,351,328</u>	<u>\$ 2,140,521</u>	<u>\$ 8,491,849</u>

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

NOTE 5 – LONG-TERM DEBT (continued)

The following is a summary of the terms of obligations of certificates of obligation, general obligation bonds and revenue bonds outstanding as of September 30, 2006:

Governmental activities	Series	Original Issue	Interest Rate	Debt Outstanding
General Obligation Bonds				
1995 General Obligation Bonds		\$ 6,815,000	4.70% to 7.50%	\$ 750,000
1997 General Obligation Refunding Bonds		3,283,353	4.25% to 5.00%	1,063,840
1999 General Obligation Refunding Bonds		4,601,840	4.30% to 5.00%	3,589,240
2002 General Obligation Refunding Bonds		2,935,670	3.25% to 4.75%	2,556,030
2003 General Obligation Refunding Bonds		9,350,320	2.00% to 4.00%	8,356,173
				<u>16,315,283</u>
				-
Certificates of Obligation				
1995 Tax and Revenue Certificates of Obligation		500,000	4.75% to 5.55%	50,000
1999 Tax and Revenue Certificates of Obligation		7,638,360	4.30% to 5.30%	2,553,672
2003A Tax and Revenue Certificates of Obligation		7,500,000	2.00% to 4.25%	6,670,000
2003B Tax and Revenue Certificates of Obligation		10,350,000	2.00% to 4.25%	10,300,000
2003C Tax and Revenue Certificates of Obligation		3,135,000	1.50% to 4.00%	2,630,000
2004A Tax and Revenue Certificates of Obligation		5,070,000	3.00% to 5.00%	4,920,000
2004B Tax and Revenue Certificates of Obligation		5,675,000	3.60% to 4.38%	5,485,000
2005A Tax and Revenue Certificates of Obligation		500,000	4.00% to 4.50%	8,065,000
2006A Tax and Revenue Certificates of Obligation		4,695,000	4.15% to 6.00%	4,695,000
				<u>40,673,672</u>
				<u>\$ 56,988,955</u>
Total Governmental Activities				
Business-type activities				
	Series	Original Issue	Interest Rate	Debt Outstanding
Revenue Bonds				
1999 Water Works and Sewer System Revenue Bonds		\$ 12,170,000	4.30% to 5.90%	\$ 610,000
2002 Water Works & Sewer System Revenue Bonds		4,310,000	4.50% to 5.50%	3,440,000
2004 Water Works & Sewer System Revenue Bonds		12,790,000	3.00% to 4.50%	12,380,000
2005 Water Works & Sewer System Revenue Refunding Bonds		8,170,000	3.870%	8,120,000
				<u>24,550,000</u>
Contract Revenue Bonds				
1999B GCWA Contract Revenue Refunding Bonds		4,700,000	3.50% to 5.00%	2,505,000
2001 GCWA Contract Revenue Bonds		4,150,000	3.00% to 4.90%	3,195,000
				<u>5,700,000</u>
General Obligation Bonds				
1997 General Obligation Refunding Bonds		5,446,647	4.25% to 5.00%	3,296,160
1999 General Obligation Refunding Bonds		18,860,000	4.30% to 5.50%	11,120,760
2002 General Obligation Refunding Bonds		4,749,330	3.25% to 4.75%	4,113,970
2003 General Obligation Refunding Bonds		1,969,680	2.00% to 4.00%	1,828,827
				<u>20,359,717</u>
Certificates of Obligation				
1998 Combination Tax and Revenue Certificates of Obligation		6,115,000	5.00% to 7.00%	4,825,000
1999 Combination Tax and Revenue Certificates of Obligation		4,371,640	4.30% to 5.90%	1,526,328
				<u>6,351,328</u>
Total Business-type Activities				
				<u>\$ 56,961,045</u>

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

NOTE 5 – LONG-TERM DEBT (continued)

Component Unit	Series	Original Issue	Interest Rate	Debt Outstanding
Revenue Bonds				
1995 Sales Tax Revenue Bonds		\$ 3,935,000	3.90% to 5.50%	\$ 2,280,000
				<u>\$ 2,280,000</u>

Prior Year Advanced Refunding of Long-Term Debt

In a prior year, the City issued General Obligation Refunding Bonds, Series 2003 to advance refund a portion of the following bond series: Public Improvement Bonds, Series 1992; Combination Tax and Revenue Certificates of Obligation, Series 1994, General Obligation Bonds, Series 1994, Combination Tax and Revenue Certificates of Obligation, Series 1995, General Obligation Bonds, Series 1995 and Combination Tax and Revenue Certificates of Obligation, Series 1999. The proceeds of the bond issue were placed in an irrevocable trust with an escrow agent to provide for the debt service payments until the refunded bonds are called in 2007. As of September 30, 2006, \$4.8 million of the refunded portion of the bonded debt remains outstanding and are considered defeased.

In the fiscal year ended September 30, 2005, the City issued Waterworks and Sewer System Revenue Refunding Bonds, Series 2005 to advance refund a portion of the following bonds: Waterworks and Sewer System Revenue Bonds, Series 1999. The proceeds of the bonds were placed in an irrevocable trust with an escrow agent to provide for the debt service payments until the refunded bonds are called in 2007. As of September 30, 2006, \$7.9 million of the refunded portion of the bonded debt remains outstanding and are considered defeased.

Legal Compliance

A number of limitations and restrictions are contained in the various bond ordinances. The City has complied with all significant limitations and restrictions.

A summary of permanent improvement bonds authorized, but unissued at September 30, 2006 follows:

<u>Purpose</u>	<u>Date Authorized</u>	<u>Amount Authorized</u>	<u>Amount Unissued</u>
City hall	07/15/69	\$ 862,250	\$ 6,250
Public safety improvements	09/19/92	400,000	400,000
		<u>\$ 1,262,250</u>	<u>\$ 406,250</u>

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - DEFERRED REVENUE

Revenue from delinquent property taxes receivable of \$870,151 at September 30, 2006, has been deferred in the fund financial statements until collected. Delinquent tax collections during the first sixty days subsequent to September 30, 2006, have not been recorded as revenue as of September 30, 2006, as the amount is not considered material. Uncollected fees in the amount of \$331,908 for garbage services and \$870,732 for municipal court receivables have also been deferred in the fund financial statements at September 30, 2006.

NOTE 7 – INTERFUND TRANSACTIONS

The following is a summary of interfund activity at September 30, 2006:

Transfer in	Transfer Out			Total
	General	Water and Waste Water	NonMajor Funds	
General	\$	\$ 1,350,000	\$ 1,133,550	\$ 2,483,550
NonMajor Funds	2,144,986		69,418	2,214,404
Water and Waste Water			180,551	180,551
	<u>\$ 2,144,986</u>	<u>\$ 1,350,000</u>	<u>\$ 1,383,519</u>	<u>\$ 4,878,505</u>

Amounts transferred between funds relate to the following:

From	To	Purpose
General Fund	Special Revenue	Fund Sportplex activities
General Fund	Internal Service	Fund Capital Replacement program
Water and Wastewater	General Fund	Reimbursement of Administrative Charges
Internal Service	Capital Projects	Transfer of assets
Special Revenue	General Fund	Reimbursement for land purchase
Capital Projects	General Fund	Reimbursement for project costs
General Fund	Capital Projects	Fund capital project costs

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM

Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 811 administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are 200% percent of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and city matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes. Plan provisions for the City were as follows for the 12/31/2005 valuation:

Deposit Rate: 7%

Matching Ratio (City to Employee): 2 to 1

A member is vested after 5 years

Members can retire at certain ages, based on the years of service with the City.

The Service Retirement Eligibilities for the city, expressed as Age/Years of Service are:

5 yrs/age 60, 20 yrs/any age

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM (continued)

Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. (i.e. December 31, 2005 valuation is effective for rates beginning January 2007).

Annual Pension Cost

The City's annual pension cost was equal to the City's required and actual contributions. Three-year trend information for the City's TMRS plan follows:

Fiscal Year	Annual Pension Cost	Percentage Contributed
2006	\$ 1,976,487	100%
2005	1,930,434	100%
2004	1,669,893	100%

The City of League City is one of 801 municipalities having the benefit plan administered by TMRS. Each of the 801 Municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2005 valuations are contained in the 2005 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, TX, 78714-9153.

The City's annual covered payroll and annual pension cost are actuarially valued on a calendar year basis. Because the City makes all of the annually required contributions, no net pension obligation exists. The information presented below was determined as part of the actuarial valuations as of December 31, 2004.

Actuarial Assumptions	
Actuarial Cost Method	Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	25 Years - Open Period
Asset Valuation Method	Amortized Cost
Investment Rate of Return	7%
Projected Salary Increases	None
Includes Inflation At	3.50%
Cost-of-Living Adjustments	None

NOTE 9 - CONTRACTS

Summaries of the City's significant contracts follow:

A. Gulf Coast Water Authority

The City together with the City of Galveston contracted with the Gulf Coast Water Authority ("GCWA") pursuant to which the GCWA issued \$3,650,000 Water Revenue Bonds, Series 1971 and \$25,840,000 City of Houston Southeast Water Purification Project Contract Revenue Bonds, Series 1987 (the "Series 1987 Bonds"). The proceeds of the Series 1987 Bonds were used to finance each city's pro rata share of a purification plant located at Ellington Field. The plant is designed to provide a regional surface water supply to eastern Harris County and Galveston County. The GCWA purchased 21 MGD capacity in the plant, of which the City of Galveston agreed to buy 16 MGD and the City agreed to buy 5 MGD. Pursuant to the contract with GCWA, the City of Galveston and the City agreed to pay, as operating expenses of their waterworks system, specified amounts of water necessary to pay debt service on these bonds, to establish and maintain reserve and contingency funds and to pay costs of water purchased by the GCWA for delivery to the cities. Charges to the City of Galveston and the City averaged \$0.41/M gallons (actual, price / M gallons is calculated quarterly).

B. Municipal Utility Districts

The City has entered into utility agreements with several Municipal Utility Districts whose boundaries overlap the boundaries of the City. The Districts acquire and construct water, sanitary sewer and drainage facilities to serve the areas within the Districts and issue bonds to finance such facilities. Such contracts provide that:

- The City will operate and maintain the systems.
- The rates charged by the City will be equal and uniform to those charged to other similar users within the City. Each fiscal year, the City shall determine the Net Revenues, if any, earned from the operation the water and sewer system serving some Districts. Net revenues shall mean gross water and sewer commercial and residential service income less all expenses reasonably required for the administration, efficient operation and adequate maintenance of the facilities and improvements required to serve the Districts. Operational deficits shall be included as carryovers in calculating Net Revenues. Net revenues, if any, shall be rebated to some Districts.
- The City agrees to collect for and remit to nine of the Districts a portion (8% to 40%) of the ad valorem taxes on land and improvements with the Districts. Three percent of the Districts' portion is retained by the City for administrative expenses. All funds rebated shall be used exclusively for retirement of the Districts' bonded indebtedness.
- At such time as the boards of the Districts are discharged, the Districts will release their security interests in the water, sanitary sewer and drainage facilities to the City.

NOTE 9 - CONTRACTS (Continued)

C. Galveston County Water Control and Improvement District No. 1

The City entered into an agreement dated March 10, 1983 with Galveston County Water Control and Improvement District No. 1 providing for an inter-connect to be built between the City and the District by the Gulf Coast Water Authority. The City agreed to buy one million gallons of water per day on a take-or-pay basis. Under a Revised Water Supply Agreement effective January 1, 1987, the annual volume of water to be paid for by the City on a take-or-pay basis was reduced to a minimum of 150,000 gallons per day, to be adjusted annually to an amount equal to the prior year's average usage, but not to exceed one million gallons per day. The cost to the City will vary depending on the cost to the District to fulfill its obligation.

D. Gulf Coast Water Authority

The City entered into an agreement with the Gulf Coast Water Authority (GCWA) on September 8, 1998, providing for the construction of an elevated storage tank and other water system improvements and issuance of GCWA Contract Bonds to finance the construction. The City is considered the owner of the assets and, as provided in the agreement, makes periodic payments to GCWA to service the debt.

E. Water Capacity Contract

In June of 1998, the City of League City ("League City") issued its Certificates of Obligation, Series 1998 (the "Certificates") to finance the purchase from the City of Galveston ("Galveston") of additional pumping and production capacity in the City of Houston Southeast Water Purification Plant (the "Southeast Plant"). In connection with the purchases of such capacity, League City entered into (1) a Water Capacity Purchase and Sale Agreement dated as of April 28, 1998 (the "Water Capacity Purchase and Sale Agreement") between Gulf Coast Water Authority ("GCWA"), Galveston and League City, which set forth the terms regarding the purchase and sale of such capacity and (2) a Second Amendment to Water Supply Contract dated as of August 20, 1998 (the "Second Amendment") between GCWA and League City. The Second Amendment amends the Original Water Supply Contract to effectuate the increase in League City's capacity as a result of League City's purchase of pumping and production capacity from Galveston pursuant to the Water Capacity Purchase Agreement. The Second Amendment provides for an increase in League City's production capacity from 5 MGD to 11 MGD and an increase in its pumping capacity from 6 MGD to 12.9 MGD. Pursuant to its terms, the Second Amendment becomes effective on the earlier of (i) August 1, 2001 or (ii) the date prior to August 1, 2001, on which Galveston ceases to take deliveries of water from the Southeast Plant.

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

NOTE 10 - LITIGATION

As of September 30, 2006, the City was either a defendant or co-defendant in several lawsuits. While the City and legal counsel cannot predict the results of any litigation, it believes that it has meritorious defenses to most of those actions, proceedings and claims. It is the opinion of City Management and legal counsel believe that any ultimate uninsured liability to the City from these lawsuits will not be material.

NOTE 11 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Risk control techniques have been established to reasonably ensure that the City's employees are aware of their responsibilities regarding loss exposures related to their duties. In a similar manner, risk control techniques have been established to reduce possible losses to property owned by or under control of the City. Furthermore, supervisory personnel are held responsible for monitoring risk control techniques on an operational basis.

The primary technique used for risk financing is the City's participation in Texas Municipal League risk pool that has lessened the cost of insurance. Should losses occur the portion of the uninsured loss is not expected to be significant with respect to the financial position of the City. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

All risk activities are accounted for in the General Fund. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

NOTE 12 – RESTATEMENT OF NET ASSETS

A portion of beginning net assets for the internal service fund has been restated for the reclassification of approximately \$686,000 of capital assets currently reported as governmental capital assets in the government-wide financial statements. This reclassification resulted in no overall change in the City's overall net asset balances.

NOTE 13 – SUBSEQUENT EVENT

The City of League City sold \$21,515,000 of General Obligation Refunding Bonds, Series 2007 on December 19, 2006. The Bonds were sold to refinance previously issued obligations at lower interest rates. The obligations that were refinanced included the General Obligation Refunding Bonds, Series 1997, maturities 2009 through 2013; the Combination Tax and Revenue Certificates of Obligation, Series 1998, maturities 2010 through 2020; the Combination Tax and Revenue Certificates of Obligation, Series 1999, maturities 2009 through 2013 and the General Obligation Refunding Bonds, Series 1999, maturities 2009 through 2013. The refunded obligations had interest rates ranging from 4.60% to 5.50%. The Bonds were sold with a true interest cost of 3.897% and an average life of 4.867 years. The transaction closed on January 11, 2007.

NOTE 14 – MAJOR DISCRETELY PRESENTED COMPONENT UNITS

The following discretely presented component units represent major component units. For reporting purposes, the City considers a component unit to be major if its assets, liabilities, revenue or expenditures/expenses exceed 10% of that component unit's class (governmental/business-type) and exceed 5% of all component units combined.

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

NOTE 14 – MAJOR DISCRETELY PRESENTED COMPONENT UNITS (continued)

Discretely Presented Component Units - Governmental Activities

Statement of Net Assets

September 30, 2006

	4B Industrial Development Corporation	Tax Increment Financing Zone No. One	Tax Increment Financing Zone No. Two	Public Improvement District No. One	Public Improvement District No. Two	Public Improvement District No. Three	Non-major Component Units	Total
ASSETS								
Cash and equivalents	\$ 3,143,534	\$ 81,010	\$ 2,527,642	\$ 213,783	\$ 405,861	\$ 35,910	\$ 387,913	\$ 6,795,653
Receivables-less allowance for uncollectibles	184,818							184,818
Capital assets, non depreciable							41,080	41,080
Capital assets, net of accumulated depreciation							29,125	29,125
Total assets	<u>3,328,352</u>	<u>81,010</u>	<u>2,527,642</u>	<u>213,783</u>	<u>405,861</u>	<u>35,910</u>	<u>458,118</u>	<u>7,050,676</u>
LIABILITIES								
Accounts payable and accrued expenses	10,379	77,630	(2,070)	212,872	404,861	35,769	18,014	757,455
Long term liabilities:								
Current	205,000							205,000
Non-current	2,075,000							2,075,000
Total liabilities	<u>2,290,379</u>	<u>77,630</u>	<u>(2,070)</u>	<u>212,872</u>	<u>404,861</u>	<u>35,769</u>	<u>18,014</u>	<u>3,037,455</u>
NET ASSETS								
Invested in capital assets, net of related debt							70,205	70,205
Unrestricted	1,037,973	3,380	2,529,712	911	1,000	141	369,899	3,943,016
Total net assets	<u>\$ 1,037,973</u>	<u>\$ 3,380</u>	<u>\$ 2,529,712</u>	<u>\$ 911</u>	<u>\$ 1,000</u>	<u>\$ 141</u>	<u>\$ 440,104</u>	<u>\$ 4,013,221</u>

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

NOTE 14 – MAJOR DISCRETELY PRESENTED COMPONENT UNITS (continued)

Discretely Presented Component Units - Governmental Activities

Statement of Activities

For the Year Ended September 30, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expense) and Changes in Net Assets							Totals
		Charges for Services	Operating Grants	4B Industrial Development Corporation	Tax Increment Financing Zone No. One	Tax Increment Financing Zone No. Two	Public Improvement District No. One	Public Improvement District No. Two	Public Improvement District No. Three	Non-major Component Units	
Component Unit											
4B Industrial Development Corporation	\$ 134,561	\$		\$ (134,561)							\$ (134,561)
Tax Increment Financing Zone No. One	1,034,398				\$ (1,034,398)						(1,034,398)
Tax Increment Financing Zone No. Two	942,582					\$ (942,582)					(942,582)
Public Improvement District No. One	993,869	964,236					\$ (29,633)				(29,633)
Public Improvement District No. Two	404,861	388,730						\$ (16,131)			(16,131)
Public Improvement District No. Three	241,563	238,983							\$ (2,580)		(2,580)
Non-major Component Units	634,138	88,400								\$ (545,738)	(545,738)
	<u>\$ 4,385,972</u>	<u>\$ 1,680,349</u>	<u>\$ -</u>	<u>(134,561)</u>	<u>(1,034,398)</u>	<u>(942,582)</u>	<u>(29,633)</u>	<u>(16,131)</u>	<u>(2,580)</u>	<u>(545,738)</u>	<u>(2,705,623)</u>
General revenues:											
Taxes:											
Property taxes					1,034,399	1,959,158				393,236	3,386,793
Sales and use tax				980,893							980,893
Unrestricted investment earnings				133,768	984	92,121	13,063	13,651	2,520	11,173	267,280
Total general revenues				<u>1,114,661</u>	<u>1,035,383</u>	<u>2,051,279</u>	<u>13,063</u>	<u>13,651</u>	<u>2,520</u>	<u>649,070</u>	<u>4,879,627</u>
Change in net assets				980,100	985	1,108,697	(16,570)	(2,480)	(60)	103,332	2,174,004
Net assets, beginning				57,873	2,395	1,421,015	17,481	3,480	201	336,772	1,839,217
Net assets, ending				<u>\$ 1,037,973</u>	<u>\$ 3,380</u>	<u>\$ 2,529,712</u>	<u>\$ 911</u>	<u>\$ 1,000</u>	<u>\$ 141</u>	<u>\$ 440,104</u>	<u>\$ 4,013,221</u>

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF LEAGUE CITY, TEXAS

GENERAL FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE- BUDGET TO
ACTUAL**

For the Year Ended September 30, 2006

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property Taxes	\$ 14,120,561	\$ 14,155,561	\$ 14,186,862	\$ 31,301
Sales and miscellaneous taxes	8,343,214	8,682,714	9,465,445	782,731
Fees and fines	1,216,550	1,216,550	1,336,111	119,561
Licenses and permits	2,125,300	2,125,300	2,355,933	230,633
Intergovernmental	138,624	445,983	684,628	238,645
Charges for services	3,094,790	3,394,290	3,336,994	(57,296)
Investment earnings	312,500	312,500	698,944	386,444
Miscellaneous	61,400	80,691	151,655	70,964
Total revenues	<u>29,412,939</u>	<u>30,413,589</u>	<u>32,216,572</u>	<u>1,802,983</u>
EXPENDITURES				
Current:				
General government	6,477,260	6,249,035	5,744,817	504,218
Public Safety	11,934,022	12,681,422	12,122,065	559,357
Public works	8,336,908	9,302,491	8,739,561	562,930
Community Services	3,320,083	3,506,255	3,157,449	348,806
Total Expenditures	<u>30,068,273</u>	<u>31,739,203</u>	<u>29,763,892</u>	<u>1,975,311</u>
Excess (deficiency) of revenues over expenditures	<u>(655,334)</u>	<u>(1,325,614)</u>	<u>2,452,680</u>	<u>3,778,294</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,350,000	2,381,130	2,483,550	(102,420)
Transfers out	<u>(819,243)</u>	<u>(2,144,986)</u>	<u>(2,144,986)</u>	
Total other financing sources and uses	<u>530,757</u>	<u>236,144</u>	<u>338,564</u>	<u>(102,420)</u>
Net change in fund balances	<u>(124,577)</u>	<u>(1,089,470)</u>	<u>2,791,244</u>	<u>3,880,714</u>
Fund balances - beginning	<u>12,944,808</u>	<u>12,944,808</u>	<u>12,944,808</u>	
Fund balances - ending	<u>\$ 12,820,231</u>	<u>\$ 11,855,338</u>	<u>\$ 15,736,052</u>	<u>\$ 3,880,714</u>

CITY OF LEAGUE CITY, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY BUDGET INFORMATION

GENERAL BUDGET POLICIES

The budget for the City Government shall present a complete financial plan for the ensuing fiscal year. It shall set forth all proposed expenditures for administration, operation and maintenance of all departments and agencies of the City Government for which appropriations are required to be made or taxes levied by the City. The budget shall also include (1) the revenues and expenses of the water and sewer system, and such system may be shown in the budget as a self-supporting enterprise; (2) all expenditures for capital projects to be undertaken or executed during the fiscal year; and (3) all deficits from prior fiscal years. In addition, thereto, the budget shall set forth the anticipated income and other means of financing the total proposed expenditures of the City Government for the fiscal year.

Prior to the first of August of each year, the departments and agencies of the City Government shall transmit estimates of their budgetary requirements to the Mayor. The Council may revise, alter, increase, or decrease the items of the budget, provided that when it shall increase the total proposed expenditures, it shall also increase the total anticipated revenue so that the total means of financing the budget shall at least equal in amount the aggregated proposed expenditures. When the Council shall make such changes, it shall issue a statement setting forth clearly its action in the budget. At least ten (10) days before the beginning of the fiscal year, the Council shall approve the budget plan and shall enact the appropriation ordinance. As soon thereafter as possible, the Council shall pass the tax levy ordinance and such other ordinances as may be required to make the budget effective.

The legal level of control is at the department/function level for the General Fund. Debt Service and Special Revenue Funds' legal level of control is at the total fund level. However, modifications to the budget may be made by the Council through transfers of any unencumbered appropriation balance of portion thereof from one office, department or agency to another, at any time. The Mayor shall have authority, without Council authority, to transfer appropriation balances from one expenditure account to another within a single office, department or agency.

No money shall be drawn from the treasury of the City, nor shall any obligation for the expenditure of money be incurred, except in pursuance of the annual appropriation ordinance or of such ordinance when changed as authorized by the Charter. At the close of each fiscal year any unencumbered balance of an appropriation shall revert to the fund from which appropriated and shall be subject to re-appropriation; but appropriations may be made by the Council, to be paid out of the income of the current year, in furtherance of improvements or other objects or works which will not be completed within such year, and any such appropriation shall continue in force until the purpose for which it was made shall have been accomplished or abandoned.

CITY OF LEAGUE CITY, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY BUDGET INFORMATION

BUDGETARY BASIS OF ACCOUNTING

Budgets for the General, Special Revenue and Debt Service Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) with the exception of the following special revenue funds for which no budgets are adopted:

- Hotel Occupancy Tax
- City Sidewalk
- Community Development Block Grant (CDBG)
- Special Park

The City adopts project length budgets for capital project funds.

ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Open encumbrances are reported as reservations of fund balances since they do not constitute expenditures or liabilities. Under Texas law, appropriations lapse at September 30, of each year and encumbrances outstanding at the time are to be either canceled or appropriately provided for in the subsequent year's budget. There were approximately \$318,915 end-of-year outstanding encumbrances included in the subsequent year's budget.

CITY OF LEAGUE CITY, TEXAS
REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION
September 30, 2006

TEXAS MUNICIPAL RETIREMENT SYSTEM (UNAUDITED)
Schedule of Funding Progress

Actuarial Valuation Date December 31,	Actuarial Value of Assets	Actuarial Accrued Liabilities	Percentage Funded	Unfunded Actuarial Accrued Liability (UAAL)	Annual Covered Payroll	(UAAL) as a Percentage of Covered Payroll
2005	\$ 29,040,884	\$ 37,313,128	78%	\$ 8,272,244	\$ 16,050,695	52%
2004	26,267,720	33,572,251	78%	7,304,531	14,532,346	50%
2003	23,501,876	31,750,251	74%	8,248,375	13,278,927	62%

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

To account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

Police Activity Fund - This special revenue fund is used to account for funds donated for the DARE program, community outreach program and criminal investigation purpose. Various purchases including supplies, equipment and other services are made from these funds. The League City Police Department administers the funds of these programs.

Library Gift Fund - This special revenue fund is used to account for donated funds to be used specifically for the purchase of special items not covered by the Library's general operating budget.

Special Park Fund - This special revenue fund is used to account for miscellaneous park receipts, such as the sale of aluminum cans collected at parks, and utilized for the upkeep of the parks.

Hotel Occupancy Tax Fund – This fund is used to account for the hotel occupancy tax revenues. Collected revenues are transferred to the Destination League City Convention and Visitors Corporation with whom the City has contracted to manage the programs funded by these revenues.

Escrow Fund - Park Facilities Maintenance - This fund is used to account for fees of \$1,000 per living unit paid by developers in lieu of dedication of park or recreation areas. Funds collected within this fund are to be used specifically for park facilities and maintenance at the discretion of the City Council.

Municipal Court Building Security and Technology Fund - This special revenue fund is used to account for a fee of \$7 per misdemeanor conviction and is collected for future improvements to the security and technology of the court facilities.

League City SportsPlex Fund - This fund is used to account for the operations and maintenance of an amateur sports complex.

City Sidewalk Fund - This fund is used to account for fees paid by developers in lieu of building or installing sidewalks. Funds collected within this fund are to be used specifically for sidewalk improvements at the discretion of the City Council.

Butler Longhorn Museum Donation Fund – This special revenue fund is used to account for funds donated specifically for the support of the Butler Longhorn Museum. Funds would typically be used to purchase or construct exhibits and attractions for the Museum.

Animal Control Donation Fund – This special revenue fund is used to account for funds donated specifically for the support of the Animal Control Shelter. Donated funds would typically be used for veterinary services, food for animals, and educational materials.

CDBG Fund – This fund is used to account for the distribution of funds received from the Community Development Block Grant. These funds are to be used to improve living conditions for low- to moderate-income residents.

NONMAJOR GOVERNMENTAL FUNDS (continued)

CAPITAL PROJECTS FUNDS

To account for the acquisition and construction of major capital facilities other than those financed by proprietary funds.

Fire Department Training /Drill Fund - this fund consists of monies received primarily from fire donations. The funds are used to construct and improve volunteer fire department facilities.

Special Assessments Fund - this fund is used to account for the receipt of special assessments and the expenditures of such funds to improve Oak Street, Fenwood Street, Tallow Forest Street, Arkansas Street, Alaska Street and 2nd Street.

1999 Certificate of Obligation Fund - this fund is used to account for the construction and improvement of the police station and the fire station, and for construction and improvement of streets and the construction of drainage improvements.

Miscellaneous Capital Projects Fund – this fund is used to account for miscellaneous capital projects designated by City Council.

2003A Certificates of Obligation Fund – this fund is used to account for the construction and improvements relating to Fire Station #5, Fire Station #1 Renovation, EMS East Side Station, EMS West Side Station, Butler Longhorn Museum, Webster St Drainage and the City-wide Radio Replacement Program.

2004A Certificates of Obligation Fund – this fund is used to account for the construction and improvements relating to the Big League Dreams Sports Park.

2004B Certificates of Obligation Fund – this fund is used to account for the construction and improvements relating to the Big League Dreams Sports Park

2005A Certificates of Obligation Fund – this fund is used to account for the design, acquisition, construction and extension of streets, sidewalks, water, sewer and drainage facilities in TIRZ# 2 and Palamino Road.

2006 Certificates of Obligation Fund – this fund is used to account for the acquisition, construction and extension of street improvements, firefighting equipment and related projects.

COMBINING STATEMENTS

CITY OF LEAGUE CITY, TEXAS
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
September 30, 2006

	<u>Special Revenue</u>			
	<u>Police Activity</u>	<u>Municipal Court Security and Technology</u>	<u>Library Gift</u>	<u>Special Park</u>
ASSETS				
Cash and cash equivalents	\$ 170,084	\$ 235,175	\$ 48,365	\$ 2,427
Receivables (net of allowance for uncollectibles)				
Total assets	<u>170,084</u>	<u>235,175</u>	<u>48,365</u>	<u>2,427</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	28,209		6,393	
Deferred revenue				
Other accrued expenditures		362		
Customer deposits				
Total liabilities	<u>28,209</u>	<u>362</u>	<u>6,393</u>	
 Fund balances:				
Unreserved	<u>141,875</u>	<u>234,813</u>	<u>41,972</u>	<u>2,427</u>
Total fund balances	<u>141,875</u>	<u>234,813</u>	<u>41,972</u>	<u>2,427</u>
Total liabilities and fund balances	<u>\$ 170,084</u>	<u>\$ 235,175</u>	<u>\$ 48,365</u>	<u>\$ 2,427</u>

Funds

Hotel Occupancy Tax	Escrow-Park Facilities Maintenance	City Sidewalk	League City Sports Plex	Butler Museum Fund	Animal Control Fund	CDBG
\$ 11,748	\$ 1,449,608	\$ 49,886	\$ 214,782	\$ 26,106	\$ 2,599	\$
79,403						49,703
<u>91,151</u>	<u>1,449,608</u>	<u>49,886</u>	<u>214,782</u>	<u>26,106</u>	<u>2,599</u>	<u>49,703</u>
			5,159			49,703
			7,801			
			495			
			<u>13,455</u>			<u>49,703</u>
91,151	1,449,608	49,886	201,327	26,106	2,599	
91,151	1,449,608	49,886	201,327	26,106	2,599	
<u>\$ 91,151</u>	<u>\$ 1,449,608</u>	<u>\$ 49,886</u>	<u>\$ 214,782</u>	<u>\$ 26,106</u>	<u>\$ 2,599</u>	<u>\$ 49,703</u>

CITY OF LEAGUE CITY, TEXAS
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
September 30, 2006

	Capital Projects			
	Fire Department Training Drill	Certificates of Obligation 1999	Special Assessments	Miscellaneous Capital Projects
ASSETS				
Cash and cash equivalents	\$ 12,281	\$ 855,182	\$	\$ 2,151,332
Receivables (net of allowance for uncollectibles)			16,395	9,376
Total assets	<u>12,281</u>	<u>855,182</u>	<u>16,395</u>	<u>2,160,708</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	12,113			26,706
Deferred revenue			16,395	
Other accrued expenditures				
Customer deposits				
Total liabilities	<u>12,113</u>	<u></u>	<u>16,395</u>	<u>26,706</u>
 Fund balances:				
Unreserved	<u>168</u>	<u>855,182</u>	<u></u>	<u>2,134,002</u>
Total fund balances	<u>168</u>	<u>855,182</u>	<u></u>	<u>2,134,002</u>
Total liabilities and fund balances	<u>\$ 12,281</u>	<u>\$ 855,182</u>	<u>\$ 16,395</u>	<u>\$ 2,160,708</u>

Funds

Certificates of Obligation 2003A	Certificates of Obligation 2004A	Cert of Obligation 2004B	Certificates of Obligation 2005A	Certificates of Obligation 2006	Total Other Governmental Funds
\$ 1,460,245	\$	\$ 1,387,938	\$ 328,652	\$ 3,073,133	\$ 11,479,543
		145,353			300,230
<u>1,460,245</u>		<u>1,533,291</u>	<u>328,652</u>	<u>3,073,133</u>	<u>11,779,773</u>
41,583		87,098	9,691		266,655
					16,395
					8,163
					495
<u>41,583</u>		<u>87,098</u>	<u>9,691</u>		<u>291,708</u>
1,418,662		1,446,193	318,961	3,073,133	11,488,065
<u>1,418,662</u>		<u>1,446,193</u>	<u>318,961</u>	<u>3,073,133</u>	<u>11,488,065</u>
<u>\$ 1,460,245</u>	<u>\$</u>	<u>\$ 1,533,291</u>	<u>\$ 328,652</u>	<u>\$ 3,073,133</u>	<u>\$ 11,779,773</u>

CITY OF LEAGUE CITY, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended September 30, 2006

	Special Revenue			
	Police Activity	Municipal Court Security and Technology	Library Gift	Special Park
REVENUES				
Hotel occupancy taxes	\$	\$	\$	\$
Fines and forfeitures	39,829	64,697		
Intergovernmental				
Charges for services				
Investment earnings	11,497	10,427	2,153	168
Miscellaneous	19,836		5,335	
Total revenues	<u>71,162</u>	<u>75,124</u>	<u>7,488</u>	<u>168</u>
EXPENDITURES				
Current:				
General government		10,303		
Public Safety	41,280			
Community services			7,696	
Debt Service				
Bond issuance costs				
Capital Outlay				
Total Expenditures	<u>41,280</u>	<u>10,303</u>	<u>7,696</u>	<u> </u>
Excess (deficiency) of revenues over expenditures	<u>29,882</u>	<u>64,821</u>	<u>(208)</u>	<u>168</u>
OTHER FINANCING SOURCES (USES)				
issuance of debt				
Transfers in				
Transfers out				
Total other financing sources and uses	<u> </u>	<u> </u>	<u> </u>	<u> </u>
SPECIAL ITEM				
Proceeds from sale of land				
Net change in fund balances	<u>29,882</u>	<u>64,821</u>	<u>(208)</u>	<u>168</u>
Fund balances - beginning, as restated	111,993	169,992	42,180	2,259
Fund balances - ending	<u>\$ 141,875</u>	<u>\$ 234,813</u>	<u>\$ 41,972</u>	<u>\$ 2,427</u>

Funds						
Hotel Occupancy Tax	Escrow-Park Facilities Maintenance	City Sidewalk	League City Sports Plex	Butler Museum Fund	Animal Control Fund	CDBG
\$ 324,064	\$	\$	\$	\$	\$	\$
						270,806
2,072	63,672	2,172	183,078	1,700		
	456,288	6,602	5,068	1,807	368	
<u>326,136</u>	<u>519,960</u>	<u>8,774</u>	<u>188,146</u>	<u>3,507</u>	<u>6,206</u>	<u>270,806</u>
244,661						
					9,036	
			470,745			90,255
<u>244,661</u>			<u>470,745</u>		<u>9,036</u>	<u>90,255</u>
<u>81,475</u>	<u>519,960</u>	<u>8,774</u>	<u>(282,599)</u>	<u>3,507</u>	<u>(2,830)</u>	<u>180,551</u>
	(258,735)		326,811			(180,551)
	<u>(258,735)</u>		<u>326,811</u>			<u>(180,551)</u>
81,475	261,225	8,774	44,212	3,507	(2,830)	
9,676	1,188,383	41,112	157,115	22,599	5,429	
<u>\$ 91,151</u>	<u>\$ 1,449,608</u>	<u>\$ 49,886</u>	<u>\$ 201,327</u>	<u>\$ 26,106</u>	<u>\$ 2,599</u>	<u>\$</u>

CITY OF LEAGUE CITY, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended September 30, 2006

	Capital Projects			
	Fire Department Training Drill	Certificates of Obligation 1999	Special Assessments	Miscellaneous Capital Projects
REVENUES				
Hotel occupancy taxes	\$	\$	\$	\$
Due from other funds				
Intergovernmental				
Charges for services				
Investment earnings	575	41,114		74,247
Miscellaneous				9,376
Total revenues	<u>575</u>	<u>41,114</u>		<u>83,623</u>
EXPENDITURES				
Current:				
General government				36,344
Public Safety	12,113			134,000
Community services				
Debt Service				
Bond issuance costs				
Capital Outlay		176,200		124,267
Total Expenditures	<u>12,113</u>	<u>176,975</u>		<u>493,127</u>
Excess (deficiency) of revenues over expenditures	<u>(11,538)</u>	<u>(135,861)</u>		<u>(409,504)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term debt, net				
Transfers in				1,379,802
Transfers out				
Total other financing sources and uses				<u>1,379,802</u>
SPECIAL ITEM				
Proceeds from sale of land				
Net change in fund balances	<u>(11,538)</u>	<u>(135,861)</u>		<u>970,298</u>
Fund balances - beginning, as restated	11,706	991,043		1,163,704
Fund balances - ending	<u>\$ 168</u>	<u>\$ 855,182</u>	\$	<u>\$ 2,134,002</u>

Funds					
Certificates of Obligation 2003A	Certificates of Obligation 2004A	Cert of Obligation 2004B	Certificates of Obligation 2005A	Certificates of Obligation 2006	Total Other Governmental Funds
\$	\$	\$	\$	\$	\$ 324,064
		257,099			104,526
68,456	216	58,702	18,964	77,628	527,905
					184,778
					439,306
					503,275
<u>68,456</u>	<u>216</u>	<u>315,801</u>	<u>18,964</u>	<u>77,628</u>	<u>2,083,854</u>
					291,308
					196,429
					568,696
				57,022	57,022
334,400	19,434	239,133	202,111	767,658	1,863,203
<u>334,400</u>	<u>19,434</u>	<u>239,133</u>	<u>202,111</u>	<u>824,680</u>	<u>3,175,949</u>
(265,944)	(19,218)	76,668	(183,147)	(747,052)	(1,092,095)
				4,695,000	4,695,000
					1,706,613
				(874,815)	(1,314,101)
				<u>3,820,185</u>	<u>5,087,512</u>
(265,944)	(19,218)	76,668	(183,147)	3,073,133	3,995,417
1,684,606	19,218	1,369,525	502,108		7,492,648
<u>\$ 1,418,662</u>	<u>\$</u>	<u>\$ 1,446,193</u>	<u>\$ 318,961</u>	<u>\$ 3,073,133</u>	<u>\$ 11,488,065</u>

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BUDGETARY SCHEDULES

CITY OF LEAGUE CITY, TEXAS
SPECIAL REVENUE FUND - POLICE ACTIVITY
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended September 30, 2006

	2006		
	<u>Budget</u>	<u>Actual</u>	Variance Positive / (Negative)
REVENUES			
Fines and forfeitures	\$ 27,141	\$ 39,829	\$ 12,688
Investment earnings	1,800	11,497	9,697
Other	15,890	19,836	3,946
Total Revenues	<u>44,831</u>	<u>71,162</u>	<u>26,331</u>
EXPENDITURES			
Current:			
Public Safety	44,971	41,280	3,691
Total Expenditures	<u>44,971</u>	<u>41,280</u>	<u>3,691</u>
Changes in Fund Balance	<u>(140)</u>	<u>29,882</u>	<u>30,022</u>
Fund balances, beginning of year	<u>111,993</u>	<u>111,993</u>	
Fund balances at year end	<u>\$ 111,853</u>	<u>\$ 141,875</u>	<u>\$ 30,022</u>

CITY OF LEAGUE CITY, TEXAS
SPECIAL REVENUE FUND - MUNICIPAL COURT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended September 30, 2006

	2006		Variance Positive / (Negative)
	Budget	Actual	
REVENUES			
Fines and forfeitures	\$ 65,030	\$ 64,697	\$ (333)
Investment earnings	2,000	10,427	8,427
Total Revenues	<u>67,030</u>	<u>75,124</u>	<u>8,094</u>
EXPENDITURES			
Current:			
General government	22,158	10,303	11,855
Total Expenditures	<u>22,158</u>	<u>10,303</u>	<u>11,855</u>
Changes in Fund Balance	<u>44,872</u>	<u>64,821</u>	<u>19,949</u>
Fund balances, beginning of year	<u>169,992</u>	<u>169,992</u>	
Fund balances at year end	<u>\$ 214,864</u>	<u>\$ 234,813</u>	<u>\$ 19,949</u>

CITY OF LEAGUE CITY, TEXAS
SPECIAL REVENUE FUND - LIBRARY GIFT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended September 30, 2006

	2006		Variance Positive / (Negative)
	Budget	Actual	
REVENUES			
Investment earnings	\$ 550	\$ 2,153	\$ 1,603
Other	9,000	5,335	(3,665)
Total Revenues	<u>9,550</u>	<u>7,488</u>	<u>(2,062)</u>
EXPENDITURES			
Current:			
Community services	9,000	7,696	1,304
Total Expenditures	<u>9,000</u>	<u>7,696</u>	<u>1,304</u>
Changes in Fund Balance	<u>550</u>	<u>(208)</u>	<u>(758)</u>
Fund balances, beginning of year	<u>42,180</u>	<u>42,180</u>	
Fund balances at year end	<u>\$ 42,730</u>	<u>\$ 41,972</u>	<u>\$ (758)</u>

CITY OF LEAGUE CITY, TEXAS
SPECIAL REVENUE FUND - ESCROW PARK FACILITIES MAINTENANCE
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended September 30, 2006

	2006		Variance Positive / (Negative)
	Budget	Actual	
REVENUES			
Intergovernmental	\$ -	\$ -	\$ -
Investment earnings	15,000	63,672	48,672
Other	365,000	456,288	91,288
Total Revenues	<u>380,000</u>	<u>519,960</u>	<u>139,960</u>
EXPENDITURES			
Current:			
Community services	301,939		301,939
Total Expenditures	<u>301,939</u>		<u>301,939</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	(259,836)	(258,735)	
Changes in fund balance	(181,775)	261,225	441,899
Fund balances, beginning of year	<u>1,188,383</u>	<u>1,188,383</u>	
Fund balances at year end	<u>\$ 1,006,608</u>	<u>\$ 1,449,608</u>	<u>\$ 441,899</u>

CITY OF LEAGUE CITY, TEXAS
SPECIAL REVENUE FUND - LEAGUE CITY SPORTSPLEX
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended September 30, 2006

	2006		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive / (Negative)</u>
REVENUES			
Charges for services	\$ 151,000	\$ 183,078	\$ 32,078
Investment earnings	-	5,068	5,068
Total Revenues	<u>151,000</u>	<u>188,146</u>	<u>37,146</u>
EXPENDITURES			
Current:			
Community services	505,971	470,745	35,226
Total Expenditures	<u>505,971</u>	<u>470,745</u>	<u>35,226</u>
Revenues over (under) expenditures	<u>(354,971)</u>	<u>(282,599)</u>	<u>72,372</u>
(USES)			
Transfers from other funds		326,811	326,811
Changes in Fund Balance	(354,971)	44,212	399,183
Fund balances, beginning of year	<u>157,115</u>	<u>157,115</u>	
Fund balances at year end	<u>\$ (197,856)</u>	<u>\$ 201,327</u>	<u>\$ 399,183</u>

CITY OF LEAGUE CITY, TEXAS
SPECIAL REVENUE FUND - BUTLER MUSEUM FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended September 30, 2006

	2006		
	Budget	Actual	Variance Positive / (Negative)
REVENUES			
Investment earnings	\$	\$ 1,700	\$ 1,700
Other	-	1,807	1,807
Total Revenues	<u> </u>	<u>3,507</u>	<u>3,507</u>
EXPENDITURES			
Current:			
Community services	20,000	<u> </u>	<u>20,000</u>
Total Expenditures	<u>20,000</u>	<u> </u>	<u>20,000</u>
Changes in Fund Balance	(20,000)	3,507	23,507
Fund balances, beginning of year	<u>22,599</u>	<u>22,599</u>	<u> </u>
Fund balances at year end	<u>\$ 2,599</u>	<u>\$ 26,106</u>	<u>\$ 23,507</u>

CITY OF LEAGUE CITY, TEXAS
SPECIAL REVENUE FUND - ANIMAL CONTROL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended September 30, 2006

	2006		Variance Positive / (Negative)
	Budget	Actual	
REVENUES			
Investment earnings	\$ 100	\$ 368	\$ 268
Other	3,181	5,838	2,657
Total Revenues	<u>3,281</u>	<u>6,206</u>	<u>2,925</u>
EXPENDITURES			
Current:			
Public safety	8,600	9,036	(436)
Total Expenditures	<u>8,600</u>	<u>9,036</u>	<u>(436)</u>
Changes in Fund Balance	(5,319)	(2,830)	2,489
Fund balances, beginning of year	<u>5,429</u>	<u>5,429</u>	
Fund balances at year end	<u><u>\$ 110</u></u>	<u><u>\$ 2,599</u></u>	<u><u>\$ 2,489</u></u>

CITY OF LEAGUE CITY, TEXAS
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended September 30, 2006

	2006		Variance Positive / (Negative)
	Budget	Actual	
REVENUES			
Taxes:			
Property taxes	\$ 8,969,191	\$ 8,937,896	\$ (31,295)
Investment earnings	10,000	141,081	131,081
Total Revenues	<u>8,979,191</u>	<u>9,078,977</u>	<u>99,786</u>
EXPENDITURES			
Current:			
Contractual utility district rebate	4,069,388	3,866,895	202,493
Debt Service:			
Principal	2,797,966	2,797,966	
Interest and bond issue costs	2,111,837	2,109,014	2,823
Total Expenditures	<u>8,979,191</u>	<u>8,773,875</u>	<u>205,316</u>
Changes in fund balance		305,102	305,102
Fund balances, beginning of year	<u>637,070</u>	<u>637,070</u>	
Fund balances at year end	<u>\$ 637,070</u>	<u>\$ 942,172</u>	<u>\$ 305,102</u>

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UNAUDITED STATISTICAL SECTION

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CITY OF LEAGUE CITY, TEXAS**NET ASSETS BY COMPONENT***Last Four Fiscal Years**Amounts in (000's)**(Accrual Basis of Accounting)*

	Fiscal Year			
	2003	2004	2005	2006
Governmental Activities				
Invested in Capital assets, net of related debt	\$ 106,643	\$ 98,650	\$ 90,101	\$ 102,970
Restricted	2,925	2,433	2,378	3,208
Unrestricted	9,861	9,769	11,412	13,759
Total governmental activities net assets	<u>\$ 119,429</u>	<u>\$ 110,852</u>	<u>\$ 103,891</u>	<u>\$ 119,937</u>
Business-type				
Invested in Capital assets, net of related debt	\$ 26,766	\$ 28,372	\$ 42,829	\$ 62,130
Restricted	7,743	8,706	1,221	368
Unrestricted	11,096	10,334	11,073	12,157
Total business-type net assets	<u>\$ 45,605</u>	<u>\$ 47,412</u>	<u>\$ 55,123</u>	<u>\$ 74,655</u>
Primary government				
Invested in Capital assets, net of related debt	\$ 133,409	\$ 127,022	\$ 132,930	\$ 165,100
Restricted	10,668	11,139	3,599	3,576
Unrestricted	20,957	20,103	22,485	25,916
Total primary government net assets	<u>\$ 165,034</u>	<u>\$ 158,264</u>	<u>\$ 159,014</u>	<u>\$ 194,592</u>

CITY OF LEAGUE CITY, TEXAS
CHANGES IN NET ASSETS
Last Four Fiscal Years
(Accrual Basis of Accounting)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
EXPENSES				
Governmental Activities				
General Government	\$ 7,647,414	\$ 7,842,146	\$ 9,929,099	\$ 10,653,854
Public Safety	9,499,193	10,366,327	12,374,528	15,002,765
Public Works	19,547,503	15,303,239	17,215,751	13,927,528
Community Services	3,683,909	3,759,983	4,726,051	5,665,064
Interest on long-term debt	1,500,713	1,908,206	2,203,677	1,968,922
Total government activities expenses	<u>41,878,732</u>	<u>39,179,901</u>	<u>46,449,106</u>	<u>47,218,133</u>
Business-Type Activities				
Utilities	14,308,479	13,545,907	14,541,689	14,644,245
Total business-type activities expenses	<u>14,308,479</u>	<u>13,545,907</u>	<u>14,541,689</u>	<u>14,644,245</u>
Total primary government expenses	<u>\$ 56,187,211</u>	<u>\$ 52,725,808</u>	<u>\$ 60,990,795</u>	<u>\$ 61,862,378</u>
PROGRAM REVENUES				
Governmental Activities				
Charges for Services				
General Government	\$ 1,937,841	\$ 33,376	\$ 29,669	\$ 24,336
Public Safety	1,184,556	1,580,698	1,757,121	1,888,852
Public Works	1,884,102	4,123,813	4,618,669	4,850,922
Community Services	522,935	609,940	622,078	602,954
Operating Grants and Contributions	1,465,603	475,210	1,215,328	1,622,948
Capital Grants and Contributions		1,209,402	19,849	18,746,413
Total governmental activities program revenues	<u>6,995,037</u>	<u>8,032,439</u>	<u>8,262,714</u>	<u>27,736,425</u>
Business-Type Activities				
Charges for services				
Utilities	15,613,173	16,370,309	18,525,851	19,493,923
Operating Grants and Contributions				45,000
Capital Grants and Contributions	234,021	50,961	4,353,738	14,313,418
Total business-type activities program revenues	<u>15,847,194</u>	<u>16,421,270</u>	<u>22,879,589</u>	<u>33,852,341</u>
Total primary government program revenues	<u>\$ 22,842,231</u>	<u>\$ 24,453,709</u>	<u>\$ 31,142,303</u>	<u>\$ 61,588,766</u>
NET (EXPENSE) REVENUE				
Governmental Activities	\$ (34,883,695)	\$ (31,147,462)	\$ (38,186,392)	\$ (19,481,708)
Business-Type Activities	1,538,715	2,875,363	8,337,900	19,208,096
Total primary government net expense	<u>\$ (33,344,980)</u>	<u>\$ (28,272,099)</u>	<u>\$ (29,848,492)</u>	<u>\$ (273,612)</u>

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
GENERAL REVENUES AND OTHER				
CHANGES IN NET ASSETS				
Governmental Activities				
Taxes:				
Property	\$ 16,216,829	\$ 18,173,498	\$ 20,269,723	\$ 23,161,785
Franchise	2,787,371	2,984,317	3,301,888	3,486,132
Sales and use	4,229,443	4,633,633	5,144,498	6,303,377
Unrestricted investment earnings	474,557	509,070	842,941	1,301,752
Miscellaneous	7,998	734,538	190,043	105,634
Loss on disposition of capital assets	(59,613)			
Transfers	1,249,743	1,746,227	1,476,347	1,169,449
Total governmental activities	<u>24,906,328</u>	<u>28,781,283</u>	<u>31,225,440</u>	<u>35,528,129</u>
Business-Type Activities				
Unrestricted investment earnings	519,996	310,942	848,677	1,493,383
Miscellaneous	871,646	2,101,036		
Transfers	(1,249,743)	(1,746,227)	(1,476,347)	(1,169,449)
Total business-type activities	<u>141,899</u>	<u>665,751</u>	<u>(627,670)</u>	<u>323,934</u>
Total primary government	<u>\$ 25,048,227</u>	<u>\$ 29,447,034</u>	<u>\$ 30,597,770</u>	<u>\$ 35,852,063</u>
CHANGES IN NET ASSETS				
Governmental Activities	\$ (9,977,367)	\$ (2,366,179)	\$ (6,960,952)	\$ 16,046,421
Business-Type Activities	1,680,614	3,541,114	7,710,230	19,532,030
Total primary government	<u>\$ (8,296,753)</u>	<u>\$ 1,174,935</u>	<u>\$ 749,278</u>	<u>\$ 35,578,451</u>

CITY OF LEAGUE CITY, TEXAS
FUND BALANCES OF GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

	Fiscal Year			
	1997	1998	1999	2000
General Fund				
Reserved	\$ 105,494		\$ 61,488	\$ 65,895
Unreserved	5,217,321	6,598,229	7,997,192	8,628,074
Total governmental activities net assets	<u>\$ 5,322,815</u>	<u>\$ 6,598,229</u>	<u>\$ 8,058,680</u>	<u>\$ 8,693,969</u>
All other governmental funds				
Reserved				
Debt service funds	1,726,424	2,131,266	2,162,025	1,838,309
Unreserved				
Special revenue funds	419,058	397,909	289,458	610,890
Capital project funds	6,816,296	3,157,325	1,470,008	9,544,321
Total other governmental activities net assets	<u>\$14,284,593</u>	<u>\$12,284,729</u>	<u>\$11,980,171</u>	<u>\$20,687,489</u>

Fiscal Year					
2001	2002	2003	2004	2005	2006
\$ 56,505	\$ 31,347	\$ 148,786	\$ 573,495	\$ 634,782	\$ 346,826
10,296,164	10,270,504	11,666,969	12,371,313	11,055,917	14,135,117
<u>\$10,352,669</u>	<u>\$10,301,851</u>	<u>\$11,815,755</u>	<u>\$12,944,808</u>	<u>\$11,690,699</u>	<u>\$14,481,943</u>
1,488,004	1,259,924	1,542,196	1,143,803	637,068	942,172
1,069,188	1,218,723	853,133	1,274,232	1,762,444	2,241,932
<u>8,709,624</u>	<u>6,651,139</u>	<u>22,490,881</u>	<u>13,516,099</u>	<u>5,730,204</u>	<u>9,246,133</u>
<u>\$21,619,485</u>	<u>\$19,431,637</u>	<u>\$36,701,965</u>	<u>\$28,878,942</u>	<u>\$19,820,415</u>	<u>\$26,912,180</u>

CITY OF LEAGUE CITY, TEXAS
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

	Fiscal Year			
	1997	1998	1999	2000
REVENUES				
Property taxes	\$11,619,206	\$11,923,113	\$12,496,279	\$12,736,701
Sales and Use Taxes	3,343,256	3,696,159	3,448,232	4,807,477
Franchise Taxes	1,878,615	2,042,269	2,168,251	2,153,695
Licenses and Permits	560,622	824,722	1,046,446	1,241,478
Fines and Forfeitures	624,435	694,435	965,256	954,318
Intergovernmental	357,483	378,900	357,773	274,422
Charges for Services	1,301,457	1,351,641	1,432,724	2,742,373
Investment earnings	995,905	1,057,293	890,866	1,461,749
Miscellaneous	900,837	1,318,048	1,131,965	1,328,845
Total revenues	<u>21,581,816</u>	<u>23,286,580</u>	<u>23,937,792</u>	<u>27,701,058</u>
EXPENDITURES				
Current				
General Government	5,205,272	5,198,306	5,173,783	5,671,122
Public Safety	4,765,391	5,493,404	5,913,922	6,504,997
Public Works	4,473,679	4,759,342	5,498,760	5,515,021
Community Services	1,435,403	2,020,497	2,227,616	3,205,811
Capital Outlay	2,299,720	4,856,175	4,379,180	2,969,589
Debt Service	2,881,024	2,762,116	2,430,113	2,625,444
Total Expenditures	<u>21,060,489</u>	<u>25,089,840</u>	<u>25,623,374</u>	<u>26,491,984</u>
Excess of revenues over (under) expenditures	521,327	(1,803,260)	(1,685,582)	1,209,074
OTHER FINANCING SOURCES (USES)				
Issuance of long-term debt		3,283,353	65,025	12,189,665
Transfers in	1,660,760	2,303,501	3,376,050	1,853,527
Transfer of debt to escrow agent		(3,210,871)		(5,170,095)
Transfers out	<u>(943,187)</u>	<u>(1,757,730)</u>	<u>(2,573,205)</u>	<u>(1,374,853)</u>
Total other financing sources and uses	<u>717,573</u>	<u>618,253</u>	<u>867,870</u>	<u>7,498,244</u>
Net change in fund balances	<u>\$ 1,238,900</u>	<u>\$ (1,185,007)</u>	<u>\$ (817,712)</u>	<u>\$ 8,707,318</u>
Debt service as a percentage of noncapital expenditures	15.36%	13.65%	11.44%	11.16%

Fiscal Year					
2001	2002	2003	2004	2005	2006
\$13,941,179	\$15,817,659	\$17,002,192	\$18,384,555	\$20,246,369	\$23,124,758
4,039,292	4,147,638	4,229,443	4,633,633	4,878,398	6,303,377
2,575,476	2,648,961	2,787,371	2,984,317	3,567,988	3,486,132
1,968,140	2,075,384	2,356,534	2,722,313	2,460,148	1,440,637
874,344	911,914	837,370	1,042,429	1,428,976	2,355,933
251,451	1,402,594	712,294	2,083,145	721,441	1,212,533
1,457,682	1,789,849	1,747,544	1,910,953	3,126,831	3,521,772
1,384,694	628,450	458,875	500,216	833,275	1,279,331
1,416,433	1,090,739	1,380,482	996,818	635,951	654,930
<u>27,908,691</u>	<u>30,513,188</u>	<u>31,512,105</u>	<u>35,258,379</u>	<u>37,899,377</u>	<u>43,379,403</u>
5,713,231	7,357,874	7,446,844	8,163,493	9,205,493	9,903,020
7,629,663	8,204,040	8,998,563	9,433,903	11,336,910	12,318,494
6,194,687	6,946,703	7,738,927	7,462,520	8,906,921	8,825,789
2,984,904	3,195,907	3,373,144	4,527,100	3,715,646	3,726,145
2,170,992	4,481,850	5,965,708	15,543,223	24,208,958	1,863,203
3,067,943	2,980,703	3,786,033	4,000,501	4,478,200	4,964,002
<u>27,761,420</u>	<u>33,167,077</u>	<u>37,309,219</u>	<u>49,130,740</u>	<u>61,852,128</u>	<u>41,600,653</u>
147,271	(2,653,889)	(5,797,114)	(13,872,361)	(23,952,751)	1,778,750
	2,926,416	30,335,320	5,070,000	14,175,000	4,695,000
2,159,118	1,735,505	1,743,750	2,368,363	3,898,519	4,190,163
(1,518,669)	(2,924,349)	(9,188,614)			
	<u>(1,308,726)</u>	<u>(1,377,253)</u>	<u>(1,351,651)</u>	<u>(3,179,293)</u>	<u>(3,459,087)</u>
<u>640,449</u>	<u>428,846</u>	<u>21,513,203</u>	<u>6,086,712</u>	<u>14,894,226</u>	<u>5,426,076</u>
<u>\$ 787,720</u>	<u>\$(2,225,043)</u>	<u>\$15,716,089</u>	<u>\$(7,785,649)</u>	<u>\$(9,058,525)</u>	<u>\$ 7,204,826</u>
11.99%	10.39%	12.08%	11.91%	11.90%	12.49%

CITY OF LEAGUE CITY, TEXAS
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years

Fiscal Year	Tax Year	Tax Rate	Total Adjusted Tax Levy (A)	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Collections to date	
				Amount	Percent of Levy		Amount	Percent of Levy
1997	1996	\$0.77000	\$ 11,502,860	\$11,310,073	98%	\$ 168,572	\$11,478,645	99.8%
1998	1997	0.75000	11,826,286	11,652,038	99%	145,326	11,797,364	99.8%
1999	1998	0.72500	12,182,934	12,036,667	99%	120,870	12,157,537	99.8%
2000	1999	0.67000	12,604,047	12,410,968	98%	157,614	12,568,582	99.7%
2001	2000	0.66750	13,988,728	13,676,269	98%	278,896	13,955,165	99.8%
2002	2001	0.66250	15,649,134	15,375,939	98%	236,901	15,612,840	99.8%
2003	2002	0.65000	17,021,332	16,765,294	98%	215,835	16,981,129	99.8%
2004	2003	0.64000	18,925,928	18,510,765	98%	342,007	18,852,772	99.6%
2005	2004	0.63000	20,703,814	20,338,727	98%	250,521	20,589,248	99.4%
2006	2005	0.62750	23,402,712	23,019,283	98%	-	23,019,283	98.4%

(A) After exemptions and abatements.

CITY OF LEAGUE CITY, TEXAS
PRINCIPAL TAXPAYERS
Current Year and Nine Years Ago

Taxpayer	2006			1997		
	Assessed Valuation	Rank	Percent of total assessed valuation	Assessed Valuation	Rank	Percent of total assessed valuation
Texas-New Mexico Power Co	\$ 33,605,460	1	0.90%	\$ 16,876,820	2	1.13%
South Shore Harbour Dev	25,339,160	2	0.68%	30,367,860	1	2.04%
A-S 56 IH-45 South FM646,LP	18,800,930	3	0.50%			
GTE Southwest Inc	16,912,350	4	0.45%	16,804,540	3	1.13%
FPA South Shore Associates	13,243,960	5	0.36%			
Palm Investors LP	12,032,320	6	0.32%			
D R Horton-Texas LTD	11,118,730	7	0.30%			
New York Life Insurance Co	10,913,500	8	0.29%			
Lennar Homes of Texas Land	10,552,220	9	0.28%			
Clear Lake Partners	10,420,590	10	0.28%	11,300,840	5	0.76%
American National Insurance Co.				15,002,090	4	1.01%
H.W. Properties, Inc				8,837,190	6	0.59%
American National Clear Lake 2 Apt				8,758,500	7	0.59%
Houston Lighting & Power Co				7,580,470	8	0.51%
Anchorage Partners C/L				6,403,360	9	0.43%
Huntcliff Assoc. Ltd PTP				6,191,750	10	0.42%
	<u>162,939,220</u>		<u>4.37%</u>	<u>128,123,420</u>		<u>8.60%</u>
Other taxpayers	<u>3,565,528,962</u>		<u>95.63%</u>	<u>1,361,261,465</u>		<u>91.40%</u>
Total	* <u><u>\$ 3,728,468,182</u></u>		<u>100.00%</u>	<u><u>\$ 1,489,384,885</u></u>		<u>100.00%</u>

Source - Tax department records of the City

* net of exemptions and abatements

CITY OF LEAGUE CITY, TEXAS
ASSESSED VALUE AND ESTIMATED ACTUAL VALUE
OF TAXABLE PROPERTY
Last Ten Fiscal Years

<u>Real Property</u>						
<u>Fiscal Year</u>	<u>Tax Year</u>	<u>Residential Property</u>	<u>Commercial Property</u>	<u>Personal Property</u>	<u>Total</u>	<u>Less: Exempt Real Property</u>
1997	1996	\$ 1,419,727,957 *	\$ -	\$ 114,083,728	\$ 1,533,811,685	\$44,426,800
1998	1997	1,511,454,972 *		116,970,638	1,628,425,610	48,450,428
1999	1998	1,767,461,754 *		127,986,749	1,895,448,503	166,268,537
2000	1999	1,783,833,381	207,525,010	134,872,129	2,126,230,520	181,998,559
2001	2000	1,996,852,921	214,294,700	134,512,863	2,345,660,484	195,411,672
2002	2001	2,172,082,786	235,619,080	152,929,565	2,560,631,431	205,746,702
2003	2002	2,516,428,212	227,331,910	161,052,207	2,904,812,329	221,444,547
2004	2003	2,777,472,033	220,931,920	174,058,147	3,172,462,100	254,590,717
2005	2004	3,215,301,333	255,476,530	176,244,201	3,647,022,064	292,747,603
2006	2005	3,058,566,355	968,814,106	185,803,655	4,213,184,116	484,715,934

All properties are assessed at 100% of actual taxable value.

Source: Tax department of the City

* Includes all real property for tax years indicated

Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Ratio of Assessed Value to Estimated Actual Value
\$ 1,489,384,885	\$ 0.770000	\$1,489,384,885	100%
1,579,975,182	0.750000	1,579,975,182	100%
1,729,179,966	0.725000	1,729,179,966	100%
1,944,231,961	0.670000	1,944,231,961	100%
2,150,248,812	0.667500	2,150,248,812	100%
2,354,884,729	0.662500	2,354,884,729	100%
2,683,367,782	0.650000	2,683,367,782	100%
2,917,871,383	0.640000	2,917,871,383	100%
3,354,274,461	0.630000	3,354,274,461	100%
3,728,468,182	0.627500	3,728,468,182	100%

CITY OF LEAGUE CITY, TEXAS
PROPERTY TAX RATES
DIRECT AND OVERLAPPING GOVERNMENTS
Last Ten Fiscal Years

Fiscal Year	1997	1998	1999	2000
Tax Year	1996	1997	1998	1999
Tax Rates				
City of League City				
Operating tax rate	\$ 0.447380	\$ 0.453700	\$ 0.479900	\$ 0.447800
Debt Service tax rate	0.322620	0.296300	0.245100	0.222200
Total tax rate	<u>\$ 0.770000</u>	<u>\$ 0.750000</u>	<u>\$ 0.725000</u>	<u>\$ 0.670000</u>
Clear Creek ISD	\$ 1.515000	\$ 1.590000	\$ 1.641500	\$ 1.598600
College of the Mainland, Jr. College District	0.188175	0.198815	0.198815	0.215762
Dickinson ISD	1.711800	1.710000	1.710000	1.751000
Santa Fe ISD	1.370000	1.444000	1.494000	1.367000
Galveston County	0.547200	0.520000	0.520000	0.545000
Galveston Co. Mun. Utility District No. 2	0.840000	0.785000	0.685000	0.615000
Galveston Co. Mun. Utility District No. 3	0.630000	0.604000	0.540000	0.480000
Galveston Co. Mun. Utility District No. 6	0.900000	0.900000	0.900000	0.860000
Galveston Co. Mun. Utility District No. 13	0.990000	0.990000	0.969000	0.965000
Galveston Co. Mun. Utility District No. 14	0.200000	0.200000	0.186150	0.186150
Galveston Co. Mun. Utility District No. 15	0.146260	0.880840	0.880840	0.870890
Tara Glen MUD	0.810000	0.826300	0.820000	0.800000
Bay Colony West MUD				
Galveston Co. Mun. Utility District No. 39				
Galveston Co. Mun. Utility District No. 43				
Galveston Co. Mun. Utility District No. 44				
Galveston Co. Mun. Utility District No. 45				
Galveston Co. Mun. Utility District No. 46				
South Shore Harbour Mun. Utility District No. 2	0.586900	0.620000	0.610000	0.600000
South Shore Harbour Mun. Utility District No. 3	0.390000	0.343000	0.335000	0.335000
South Shore Harbour Mun. Utility District No. 6	0.680000	0.620000	0.580000	0.510000
South Shore Harbour Mun. Utility District No. 7				

Note - The basis for property tax rates is per \$100 of the assessed valuation.
Source - Tax department records of the various governments

<u>2001</u> <u>2000</u>	<u>2002</u> <u>2001</u>	<u>2003</u> <u>2002</u>	<u>2004</u> <u>2003</u>	<u>2005</u> <u>2004</u>	<u>2006</u> <u>2005</u>
\$ 0.426500	\$ 0.434400	\$ 0.421500	\$ 0.428800	\$ 0.429400	\$ 0.391900
0.241000	0.228100	0.228500	0.211200	0.200600	0.235600
<u>\$ 0.667500</u>	<u>\$ 0.662500</u>	<u>\$ 0.650000</u>	<u>\$ 0.640000</u>	<u>\$ 0.630000</u>	<u>\$ 0.627500</u>
\$ 1.700800	\$ 1.725000	\$ 1.740000	\$ 1.730000	\$ 1.745000	\$ 1.775000
0.218000	0.218000	0.231870	0.263060	0.245250	0.243020
1.754000	1.747000	1.764000	1.743000	1.738000	1.751000
1.422200	1.510000	1.570000	1.570000	1.570000	1.570000
0.545000	0.565400	0.606300	0.640000	0.638800	0.628750
0.560000	0.460000	0.430000	0.390000	0.365000	0.300000
0.450000	0.430000	0.390000	0.320000	0.250000	0.210000
0.860000	0.750000	0.700000	0.700000	0.700000	0.640000
0.965000	0.965000	0.915000	0.860000	0.760000	0.710000
1.000000	1.000000	1.000000	0.970000	0.920000	0.900000
0.870890	0.870000	0.870000	0.860000	0.830000	0.825000
0.800000	0.750000	0.725000	0.700000	0.700000	0.670000
				1.000000	1.000000
		0.900000	0.900000	0.900000	0.900000
				1.000000	1.000000
					0.000000
					1.000000
					0.000000
0.570000	0.570000	0.570000	0.520000	0.450000	0.340000
0.325000	0.300000	0.300000	0.240000	0.220000	0.200000
0.460000	0.400000	0.380000	0.350000	0.310000	0.310000
		0.500000	1.000000	1.000000	0.950000

CITY OF LEAGUE CITY, TEXAS
RATIO OF NET GENERAL BONDED DEBT TO ASSESSED
VALUE AND NET BONDED DEBT PER CAPITA
Last Ten Fiscal Years

Fiscal Year	Tax Year	Gross Bonded Debt	Less Debt Service Funds	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
1997	1996	\$23,732,360	\$ 1,726,424	\$22,005,936	1.48%	\$ 485
1998	1997	23,025,934	2,131,266	20,894,668	1.32%	431
1999	1998	21,896,723	2,162,025	19,734,698	1.14%	407
2000	1999	28,643,321	1,838,309	26,805,012	1.38%	536
2001	2000	27,109,904	1,488,004	25,621,900	1.19%	512
2002	2001	25,718,316	1,259,924	24,458,392	1.04%	473
2003	2002	45,769,331	1,542,196	44,227,135	1.65%	804
2004	2003	48,439,480	1,143,803	47,295,677	1.62%	763
2005	2004	59,957,437	637,068	59,320,369	1.77%	913
2006	2005	61,683,955	942,172	60,741,783	1.63%	893

CITY OF LEAGUE CITY, TEXAS
DIRECT AND ESTIMATED OVERLAPPING
GOVERNMENTAL ACTIVITIES DEBT
September 30, 2006

<u>Taxing Jurisdiction</u>	<u>Gross Debt</u>	<u>Overlapping</u>	
		<u>Percentage</u>	<u>Amount</u>
Clear Creek ISD	\$ 539,896,264	14.21%	\$ 76,719,259
College of the Mainland Jr College District	2,913,440	6.80%	198,114
Dickinson ISD	136,687,000	15.00%	20,503,050
Galveston County	19,128,000	15.57%	2,978,230
Galveston Co. Mun. Utility District No. 2	7,225,000	100.00%	7,225,000
Galveston Co. Mun. Utility District No. 3	8,055,000	100.00%	8,055,000
Galveston Co. Mun. Utility District No. 6	20,955,000	100.00%	20,955,000
Galveston Co. Mun. Utility District No. 13	9,675,000	100.00%	9,675,000
Galveston Co. Mun. Utility District No. 14	15,205,000	100.00%	15,205,000
Galveston Co. Mun. Utility District No. 15	11,045,000	100.00%	11,045,000
Galveston Co. Mun. Utility District No. 39	16,730,218	100.00%	16,730,218
Galveston Co. Mun. Utility District No. 43	7,150,000	100.00%	7,150,000
Tara Glen MUD	4,120,000	100.00%	4,120,000
South Shore Harbour Mun. Utility District No. 2	7,140,000	100.00%	7,140,000
South Shore Harbour Mun. Utility District No. 3	4,015,000	100.00%	4,015,000
South Shore Harbour Mun. Utility District No. 6	8,570,000	100.00%	8,570,000
South Shore Harbour Mun. Utility District No. 7	18,515,000	100.00%	18,515,000
Santa Fe ISD	16,699,000	11.24%	1,876,968
Harris County	2,067,053	0.07%	1,447
Harris County Flood Control District	336,672,000	1.41%	4,747,075
Port of Houston Authority	314,314,000	0.07%	220,020
	Total Overlapping Debt		245,644,380
City of League City	61,683,955	100.00%	61,683,955
	Total Direct and Overlapping Debt		<u>\$ 307,328,335</u>
	Population		68,000
	Per Capita Debt-Direct and Overlapping		<u>\$ 4,520</u>

Source - Tax Department records of the various governments.

CITY OF LEAGUE CITY, TEXAS
RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years

Fiscal Year	Governmental Activities			Business-Type Activities				
	General Obligation Bonds	Certificates of Obligation	Capital Leases	General Obligation Bonds	Certificates of Obligation	Revenue Bonds	Contract Revenue Bonds	Capital Leases
1997	\$ 21,677,360	\$ 2,055,000	\$398,052	\$19,232,640	\$ -	\$7,910,000	\$2,858,750	271,197
1998	20,928,865	2,000,000	97,071	20,441,135	6,115,000	7,550,000	1,363,115	40,869
1999	19,951,723	1,945,000	60,659	19,918,277	6,115,000	7,175,000	1,130,949	10,522
2000	19,119,961	9,523,360	25,470	19,895,040	10,486,640	18,955,000	920,495	
2001	17,972,724	9,137,180		19,112,277	10,112,820	17,935,000	728,716	
2002	17,428,676	8,289,640		22,986,325	9,725,360	16,700,000	8,189,111	
2003	20,796,089	24,973,242		24,018,913	7,641,759	8,725,000	14,265,298	
2004	19,094,836	29,344,644		23,350,166	7,225,356	14,105,000	6,950,985	
2005	17,462,650	42,494,787		22,417,350	6,795,213	25,835,000	6,329,971	
2006	16,315,283	45,368,673		20,359,717	6,351,328	24,550,000	5,700,000	

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements

(A) See the Schedule of Demographic and Economic Statistics for assessed property values and population data.

* Information not available.

<u>Total Primary Government</u>	<u>Percentage of Personal Income (A)</u>	<u>Percentage of Actual Taxable Value of Property(A)</u>	<u>Per Capita(A)</u>
\$54,402,999	*	3.65%	\$ 1,200
58,536,055	*	3.70%	1,207
56,307,130	*	3.26%	1,161
78,925,966	7.7%	4.06%	1,579
74,998,717	7.3%	3.49%	1,500
83,319,112	7.9%	3.54%	1,612
100,420,301	7.8%	3.74%	1,826
100,070,987	5.2%	3.43%	1,614
121,334,971	5.9%	3.62%	1,867
118,645,001	5.4%	3.18%	1,745

CITY OF LEAGUE CITY, TEXAS
PLEDGED REVENUE COVERAGE
Last Ten Fiscal Years

Fiscal Year	Gross Revenue (A)	Total Operating Expenses(B)	Net Revenue Available for Debt Service	Revenue Bond Debt Service Requirements (C)			Times Coverage
				Principal	Interest	Total	
1997	\$ 9,818,804	\$ 6,836,546	\$ 2,982,258	\$ 360,000	\$ 452,275	\$ 812,275	3.67
1998	11,189,982	6,799,817	4,390,165	375,000	435,715	810,715	5.42
1999	12,205,211	6,716,792	5,488,419	390,000	841,394	1,231,394	4.46
2000	16,469,948	7,192,779	9,277,169	1,020,000	1,020,821	2,040,821	4.55
2001	16,352,374	7,825,020	8,527,354	1,040,000	998,157	2,038,157	4.18
2002	16,696,802	8,168,135	8,528,667	1,285,000	862,805	2,147,805	3.97
2003	16,125,929	10,766,072	5,359,857	1,310,000	797,468	2,107,468	2.54
2004	16,696,689	10,151,705	6,544,984	1,330,000	1,066,870	2,396,870	2.73
2005	19,374,530	10,569,401	8,805,129	1,235,000	739,526	1,974,526	4.46
2006	20,987,306	11,765,081	9,222,225	1,250,000	685,519	1,935,519	4.76

(A) Gross revenues as defined in the revenue bond ordinances, includes operating and non-operating revenue and excludes capital contributions, grant revenues, and capital recovery fees.

(B) Total expenses, as defined in the revenue bond ordinances, do not include amortization, bond interest, and fiscal charges.

(C) Debt service requirements are based on the expected debt service payments for the following fiscal year.

CITY OF LEAGUE CITY, TEXAS

PRINCIPAL EMPLOYERS

Current Year and Three Years Ago

Employer	2006		2003	
	Employees	Rank	Employees	Rank
Clear Creek Independent School District *	3,938	1	3,688	1
City of League City	436	2	394	2
American National Insurance	320	3	290	3
Devereaux Texas Treatment Network	270	4	250	4
Harborview Care Center	220	5	150	5
H.E.B.	219	6	65	8
Krogers	180	7	150	6
Randall's	109	8	78	7
	<u>5,692</u>		<u>1,377</u>	

Sources: Human Resource Department of each company

* Academic Excellence Indicator System - Total employment district-wide.

CITY OF LEAGUE CITY, TEXAS
DEMOGRAPHIC AND ECONOMIC STATISTICS
Last Ten Fiscal Years

Fiscal Year	Population (A)	Personal Income (\$000's)(E)	Per Capita Income (E)	Median Age (E)	Educational Attainment(E)*	School Enrollment (C)	Unemployment Rate (D)
1997	45,347			34.5		10,739	8.1%
1998	48,500			34.7		9,363	6.6%
1999	48,500			33.8		8,799	6.5%
2000	50,000	\$ 1,022,600	\$ 20,452	33.1		9,101	5.9%
2001	50,000	1,022,600	20,452	33.1		9,601	6.0%
2002	51,700	1,057,368	20,452	33.1		10,007	7.4%
2003	55,000	1,282,600	23,320	33.7	24%	10,582	8.2%
2004	62,000	1,921,628	30,994	34.9	36%	11,102	7.7%
2005	65,000	2,066,480	31,792	35.4	36%	11,883	5.8%
2006	68,000	2,203,880	32,410	35.5	36%	12,034	5.1%

(A) Estimated

(B) Source-Clear Lake Area Chamber of Commerce

(C) Source - Clear Creek ISD

(D) Source-Texas Workforce Commission

(E) Source-City of League City Claritas Survey

* Percent of population with Bachelor's degree or higher

Information not presented not available.

Note: Personal income information is a total for the year. Unemployment rate information is an adjusted yearly average. School enrollment is based on the census at the start of the school year.

CITY OF LEAGUE CITY, TEXAS

FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION

Last Ten Fiscal Years

Function	Full-time Equivalent Employees as of September 30									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Governmental Activities										
General Government	51	48.0	54.0	55.0	58.0	62.0	64.0	62.0	66.0	67.0
Public Safety	115	120.0	118.5	120.5	129.5	132.5	137.5	147.5	159.5	160.5
Public Works	45	55.0	60.0	66.5	66.5	66.5	68.5	67.5	72.5	71.5
Community Services	35	33.0	44.0	47.0	50.0	50.0	52.0	59.5	51.5	62.5
Business Type										
Utilities	70	61.5	61.5	66.5	68.5	68.5	71.5	73.0	74.0	74.0
Total	316	317.5	338.0	355.5	372.5	379.5	393.5	409.5	423.5	435.5

Source: City Finance Department

CITY OF LEAGUE CITY, TEXAS
CAPITAL ASSET STATISTICS BY FUNCTION
Last Ten Fiscal Years

Function	Fiscal Year			
	1997	1998	1999	2000
General Government				
Municipal buildings	22	23	23	23
City vehicles	194	188	191	196
Public Safety				
Police Protection				
Stations	1	1	1	1
Fire Protection				
Stations/Drill Field	3	3	3	3
Fire Apparatus	8	8	9	9
Public Works				
Streets	186	212	230	257
Community Services				
Parks	4	6	6	6
Ball Fields	3	23	23	23
Swimming Pools	1	1	1	1
Pavilions	8	8	8	8
Park acreage	74	178	178	178
Water				
Water Wells	5	6	6	6
Ground/elevated storage tanks	10	10	10	10
Water mains (miles)	219	232	241	263
Fire hydrants	1,444	1,527	1,640	1,843
Wastewater				
Wastewater Treatment Plants	3	3	3	3
Sanitary sewers (miles)	158	166	179	190
Sewer manholes	3,831	4,121	4,506	4,813

Source: Various City Departments

Fiscal Year						
2001	2002	2003	2004	2005	2006	
24	25	25	25	29	29	
204	207	216	227	246	232	
1	1	1	1	1	1	
4	4	4	4	6	6	
9	9	9	11	11	12	
278	292	312	331	342	371	
8	8	8	8	8	8	
24	24	25	25	25	25	
1	1	1	1	1	1	
8	8	8	8	8	8	
178	178	365	365	365	435	
6	5	5	4	4	4	
14	14	15	15	17	17	
280	291	300	317	340	354	
1,969	2,115	2,161	2,345	2,575	2,714	
2	2	2	2	2	2	
202	210	218	233	251	262	
5,170	5,432	5,654	6,124	6,665	6,969	

CITY OF LEAGUE CITY, TEXAS
OPERATING INDICATORS BY FUNCTION
Last Ten Fiscal Years

Function	Fiscal Year			
	1997	1998	1999	2000
City of League City				
Population	45,347	48,500	48,500	50,000
Square miles	53	53	53	53
Budgeted full time employees	316	318	338	356
Police				
Physical arrests			2,421	2,287
Calls for service			34,828	31,732
Municipal Court				
Traffic violations	11,285	12,890	13,872	12,094
Non traffic violations	2,207	2,638	3,830	2,915
Fire				
Calls answered	699	789	767	937
Inspections		1,972	3,016	2,377
Parks and recreation				
Recreation programs (\$)	\$ 73,212	\$ 97,963	\$ 44,402	\$ 68,788
Field rentals (\$)	\$ 50,028	\$ 83,588	\$ 176,829	\$ 178,490
Community Development				
Residential building permits issued	372	588	699	758
Residential building permits issued-\$ Value	\$57,232,776	\$83,440,737	\$100,916,512	\$106,284,384
Commercial building permits issued	21	22	23	34
Commercial building permits issued-\$ Value	\$14,414,869	\$45,425,545	\$31,376,656	\$51,814,292
Water				
Average daily gallons pumped-combined water	4.5 MGD	5.2 MGD	5.6 MGD	5.6 MGD
Average daily gallons pumped-surface water	4.2 MGD	4.8 MGD	5.1 MGD	5.1 MGD
Average daily gallons pumped-well water	.3 MGD	.5 MGD	.5 MGD	.5 MGD
Number of connections	12592	13,334	13,912	13,912
Wastewater				
Average daily effluent treated	4.0 MGD	4.6 MGD	4.4 MGD	4.4 MGD
Number of connections	12,028	12,656	13,360	13,360

Source: Various City Departments

Fiscal Year					
2001	2002	2003	2004	2005	2006
50,000	51,700	55,000	62,000	65,000	68,000
53	53	53	53	53	53
.72.5	.79.5	394	410	424	436
2,679	2,400	2,670	2,406	2,495	2,356
37,651	52,447	44,238	24,508	31,250	46,427
10,454	10,322	7,843	11,699	13,418	12,155
3,241	3,690	3,450	3,603	3,459	2,925
918	747	705	773	891	868
2,030	2,186	1,999	1,874	2,214	2,215
\$ 57,161	\$ 81,743	\$ 120,705	\$ 118,332	\$ 118,326	\$ 136,575
\$ 188,537	\$ 181,026	\$ 198,190	\$ 204,094	\$ 184,116	\$ 180,218
1,053	1,365	1,482	1,516	1,249	1,580
\$159,814,076	\$238,362,126	\$217,110,980	\$236,092,416	\$225,268,358	\$266,426,720
26	18	30	39	69	47
\$29,370,250	\$14,137,848	\$20,922,190	\$82,391,607	\$61,541,607	\$36,033,628
5.1 MGD	5.3 MGD	5.5 MGD	6.0 MGD	7.3 MGD	7.7 MGD
5.0 MGD	5.2 MGD	5.5 MGD	6.0 MGD	7.2 MGD	7.6 MGD
.4 MGD	.1 MGD	.40 MGD	.54 MGD	.47 MGD	.70 MGD
15,677	16,836	18,850	20,478	21,459	23,043
4.9 MGD	5.1 MGD	5.5 MGD	5.79 MGD	6.166 MGD	6.5MGD
15,801	16,261	18,044	19,492	20,328	21,838

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